FINANCIAL ACCOUNTING-I

Revised Edition

(FOR B.COM. FIRST YEAR)

R.P. Trivedi
Manoj Trivedi

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Financial Accounting-I

For
B.Com. First Year
Revised and Enlarged Edition

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R.P. TRIVEDI
M.Com. LL.B.,

MANOJ TRIVEDI
B.Com. GradCWA, ACA
ADF, PGDM (IIM Bangalore)

PANKAJ PUBLICATIONS
3-4-376/24, Basant Colony, Kachiguda, Hyder[illegible]027.
Phone : 040-66827812

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Preface

It gives us great pleasure to place the thoroughly revised and enlarged edition of the book in your hands. In every chapter theoretical explanation has been increased substantially, more illustrations have been added, problems from latest examination papers have been included, and Theory and Short Answer Questions have been added. The Book is written strictly according to the common core syllabus keeping in mind the latest pattern of Question papers in different universities. Uniformity is maintained in explanation and problems both in English and Telugu versions. We hope that the teachers and students will derive greater satisfaction from it.

We are thankful to Dr. Srinivas, Lecturer V.V. College, Sri Krishna Rao, Senior Lecturer, Pragathi Degree College for Women, Dilsukhnagar and Sri S. Surya Prakash Lecturer Jagruti Degree & P.G. College for the invaluable help rendered by them in publishing the book. We sincerely thank all lecturers and students who have helped us by their valuable suggestions in making the book 'Most useful' for B.Com students. We also thank Sri M. Ram Reddy, Proprietor, Om Sai Graphics and his dedicated team for the efficient and timely work done by them.

Constructive criticison and suggestions for improvement of the book are most welcome.

Hyderabad **Authors**

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Problems with ★ mark are lengthy and are of above B.Com. standard. Such problems, under the new scheme of examination, may not be asked in the examination. However, such students who wish to acquire thorough knowledge of the subject and also those students who are appearing for entrance examination of professional courses may attempt such problems.

Paper - II

FINANCIAL ACCOUNTING

The objective of this paper is to help the students to acquire fundamental knowledge of accounting and their application."

UNITS 1 : Introduction Accounting:

Need for Accounting - definition and scope of accounting - Book - keeping and Accounting - Branches of Accounting - Advantages and limitations Accounting Process - Journalising - Classifications of Accounts - Ledger - Interpretation of Balances of ledger Accounts. Subsidiary Books including different types of Cash Books.

UNITS 2 : Bank Reconciliation Statement & Bills of Exchange :

Bank Reconciliation Statement - Need - Reasons for difference between cash book and pass book balances - problems on favourable and overdraft balances - Ascertainment correct cash book balance.

Bills of Exchange-Definition Promissory. Notes and Bill of exchange-Recording of transactions relating to Bill - Books of Drawer and Acceptor-Honour and dishonour of Bills - Renewal of bill - Retiring of bills under rebate - Accommodation Bills.

UNIT 3 : Preparation of Trial Balance, Final Statements of Accounts, Errors and Rectification.

Final Accounts of sole trader-Trial Balance-Capital and Revenue Expenditure and Receipts - Trading Account - Manufacturing Account Profit & Loss Account and Balance Sheet - Adjusting and Closing entries.

Erros and their Rectification - Types of Errors - Rectification before and after preparation of final statements of Accounts - Suspense Account - Effect of Errors on Profit.

UNITS 4 : Consignements and Joint Ventures :

Consignments - Features, Proforma Invoice - Account sale Decledere Commission Accounting Treatment in the books of the consignor and the consignee-Valuation of consignment stock - Normal and abonormal Loss - Invoice of goods at a price higher - the cost price.

Joint ventures-Accounting, procedures-Joint Bank Account.

UNIT 5: Depreciation - provisions and Reserves :

Meaning of Depreciation - Causes - objects of Providing for depreciation - Factors affecting depreciation - Accounting Treatment Methods of providing depreciation - Straight line Method, Diminishing Balance Method - Annuity method - Depreciation Fund Method.

Provisions and Reserves - Reserve Fund - Different Type of Provisions and Reserves.

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CHAPTER–1

INTRODUCTION

A business concern has to keep a systematic record of its business transactions. Book-Keeping is the art of recording business transactions in regular and systematic manner. According to Carter "Book-Keeping" is the science and art of correctly recording in books of account all those business transactions that result in the transfer of money or money's worth. The term 'Accountancy' is used for accounting work of a higher order. According to Smith and Ashburne "Accounting is the science of recording and classifying business transactions and events, primarily of financial character, and the art of making significant summaries, analysis and interpretations of those transactions and events, and communicating the results to persons who must make decisions or form judgements." According to Committee on Terminology of American Institute of certified Public Accountants (A.I.C.P.A.). "Accounting is the art of recording, classifying and summarising in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results there of." According to above definition, Accounting involves the following characteristics.

1) It is an art of recording financial transactions.
2) It involves making summaries and analysis of financial transactions.
3) It is an art of interpreting the results of the financial transactions and communicating the results to the persons who are interested in such results. Accountings is regarded as 'Language of business'. It means that it communicates with parties concerned through accounting statements.

Objects of Accountancy

1) To keep a permanent, accurate and complete record of business transactions.
2) To maintain records of incomes, expenses and losses in such a way that the net profit or loss for any specified period may be ascertained.
3) To keep records of assets and liabilities in such a way that the financial position of the business at any point can be easily ascertained.
4) To enable the businessman to review and revise his policies in the light of past experience brought to light by analysing and interpreting records and reports.
5) To provide information for legal and tax purposes.

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Distinction between Book-Keeping and Accounting

Book-Keeping means recording of daily business transactions in a systematic manner. Accounting is a wider term and includes besides book-keeping, preparation of financial statements and their analysis and interpretation. Accounting is a broad subject. It involves greater understanding of records and capacity to analyse and interpret the information provided by book-keeping records. The process of accounting begins where book-keeping process ends.

The distinction between Book-Keeping and Accounting are as under:

Booking	Accounting
1. It is the recording phase of an accounting system.	1. It is recording, classifying, summarising, analysing and interpreting of business transactions.
2. It has limited scope of only re--cording business transactions original books of accounts	2. It has wider scope and includes book-keeping and analysis, interpretation of business information.
3. It does not require special skill or knowledge. It is done by clerks or lower level of manage--ment.	3. It requires special skill and knowledge. It is done by senior staff and accountants with higher level of knowledge.
4. It does not give complete picture of the financial conditions of the business.	4. It critically analyses and interprets the business transactions and shows the complete picture of the finnancial condition of the business.
5. It does not help in complying with legal formalities.	5. Legal formalities can be com - plied with help of accounting.
6. It does not provide any information for taking managerial decisions.	6. It provides information for tak ing managerial decisions.
7. It has no branches.	7. It has several branches like cost accounting management accounts etc.

Advantages

1) Innumerable monetary transactions occur in a business organisation. Accounting keeps a systematic record of such transactions.
2) When a business maintains a complete record of its transactions, it has complete information about expenses, losses, incomes and gains. Hence, it can easily ascertain the net profit or net loss for any period.
3) Accounting records will help a concern to know not only its net Profit or net loss but also the exact reasons that has contributed to the Profit or Loss.
4) When accounting records are available over a period of time, it can compare the results of its business from year to year and study the progress of business over a period of time.
5) When a business house keeps accounting records, it has a complete record of what it owns (i.e. its assets), what it owes (i.e. its liabilities) and what it has invested (i.e. its capital). So it can know the true and correct financial position of its business at anytime.
6) Accounting records enable a business concern to detect the frauds that have taken place in the business. It can take effective steps to stop its reoccurence.
7) Accounting records enable a business concern to keep effective control over it activities. For this reason accounting records are called "the eyes and ears of a business".
8) Accounting records and reports help the management in planning, controlling and decision making functions.
9) Claims against a business by its creditors, and claims by the business against its debtors can be established and proved in courts of Law by producing accounting records as evidence.
10) Accounting records will enable the business concern to know its tax liability and settlement of claim from different departments of government.

Users of Accounting Information

Accounting is the language used to communicate financial information of a concern to various parties who are interested in such information. The parties that may be interested in accounting information are as follows:

1) **Owners:** The owners provide funds for the operations of a business. They are interested in knowing whether their funds are being properly utilised or not, and the return they would get on their capital. This information will be provided by the financial statement prepared by the business concerns.

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2) **Creditors:** Creditors i.e. suppliers of goods and services on credit and bankers are interested in knowing the financial position of a concern before giving loan or granting credit. The financial statements (Profit and Loss Account and Balance Sheet) help them in judging such position.
3) **Prospective Investors:** Investors use accounting information while determining the relative merits of various investment opportunities. They will be interested in knowing the profitability and safety of their investment which they can know by studying the financial statements carefully.
4) **Management:** The management requires financial information for planning, control and decision making.
5) **Government:** Government is interested in financial statements for the purpose of taxation.

Limitations of financial accounting.

1) **Financial Accounting is historical in nature:** It supplies information in the form of Profit and Loss Account and Balance Sheet normally for one year which is past. The information is of historical interest and is in the nature of 'post-mortem' of financial activities of the previous year. The management need timely information at frequent intervals to take corrective steps at the appropriate time.
2) **Financial accounting does not provide detailed analysis:** financial accounts are concerned with the ascertainment of profit or loss of the business 'as a whole'. They reveal the overall Trading results for a period. They merely show the result of the collective activities of the business. No detailed information is provided of the exact manner in which the net profit or loss has been made. In a business the total turnover may comprise many activities, processes, jobs, contracts etc., some of which may be profitable, while others maybe at a loss. Separate information for each activity is not revealed hence profit or loss of each activity can not be known.
3) **It ignores non-monetary information:** Accounting deals only with those transactions which can be measured in terms of money. Extent of competition faced by the business, efficiency and loyalty of employees, effect of technical inventions etc. are the important matters in which the managers of the business will be highly interested, but accounting information cannot provide such information.
4) **Financial accounting does not reveal the efficiency of a business concern:** Profit is not the only measure of efficiency of a business concern. Inefficient concerns can make profits or efficient firms lose money during different economic conditions. Financial accounting fails to inform whether profits are due to efficiently in operation or due to external factors such as inflation, trade depression etc. Material losses due to pilferage wastage etc., labour and machine hour lost due to idle time cannot be found out with the help of financial accounting.

Accounting Terms

1) **Business:** It is an activity which involves exchange of goods/services with the intention of earning income and profit.
2) **Business Transactions:** It refers to any transaction, dealing or event which involves transfer of money or money's worth between two parties. Events like purchase and sale of goods, receipts and payments of cash etc. are examples of business transactions.
3) **Cash Transactions:** When payment for business activity is made immediately, it is called cash transaction.
4) **Credit Transaction:** When the payment is postponed to a future date it is called credit transaction.
5) **Non-Cash Transaction:** A non-cash transaction is a business transaction where there is no payment or receipt of cash either immediately or at a future date. Example: Depreciation, Bad Debts etc.
6) **Proprietor:** The owner of business is called proprietor. He invests capital in the business with the intention of earning profit.
7) **Capital:** It is the amount invested by the proprietor in the business. It is always equal to assets minus liabilities. It is also called 'owner's Equity' i.e. owner's claim against the assets.
8) **Drawings:** It is the value of cash or goods withdrawn from the business by the owner for his personal use.
9) **Goods:** It refers to commodities, articles or things in which a trader deals. Goods refer to commodities or things intended for resale. Unsold goods lying in a business concern on any given date are called stock.
10) **Debtor:** A debtor is a person who owes money to the business.
11) **Creditor:** A creditor is a person to whom the business owes money.
12) **Assets:** Assets refer to any properties or things owned by a business concern including the amounts due to it from others. Examples: Building, Machinery, Stock, Cash and Bank balances, Investments etc.
13) **Liabilities:** The term 'Liabilities' refer to debts or amounts due from a business to others either for money borrowed or for goods or assets purchased on credit or services received without making immediate payment. This include Bank Loan, or overdraft, Trade creditors, Outstanding expenses etc.
14) **Equity:** All claims against the assets of business are called 'equity'. The claim of outsiders is called 'Creditor's Equity' or Liability. The claim of the proprietor is called 'Owner's Equity' or Capital.
15) **Book Debt or Debt:** The amount due from a debtor is called Debt. 'Book Debt' is nothing but debt. It is called 'Book Debt' because it is the amount due from debtor as per the books of account.

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16) **Good Debt:** It is a debt which is fully recoverable.

17) **Bad Debt:** A debt which is irrecoverable is called 'Bad Debt'.

18) **Revenue:** Revenue refers to the earnings of a business. It includes the sale proceeds of goods, receipts for services rendered and earnings from interest, commission etc.

19) **Expense:** It is the amount spent in conducting business activities. It is the expenditure, in return for some benefit. Example: salary paid to staff, rent paid to landlord etc.

20) **Loss:** Loss refers to money or money's worth given up without any benefit in return. It is an expenditure in return for which no benefit is received. Loss of goods by fire, damages paid to others are examples of losses. Loss is different from an expense. An expense brings some benefit, loss does not bring any benefit. Rent paid is an expense but goods destroyed by fire is a loss.

21) **Debit and Credit :** To debit an account means to enter the transaction on the debit side of that account. To credit an account means to enter the transaction on the credit side of that account. 'Debit side' means left hand side of an account. 'Credit side' means right hand side of an account.

22) **Entry:** The record of a transaction in a journal is called 'entry'. In practice the term is used for record made in any book of account.

23) **Posting:** Posting is the process of entering in the ledger the information already recorded in journal or subsidiary books.

24) **Books of Accounts:** Books of accounts refer to suitably ruled account books in which business transactions are recorded. There are mainly two sets of books of accounts maintained by a concern. They are (1) Journal or Subsidiary Books (2) Ledger.

25) **Journal:** It is an account book where business transactions are first recorded. It is a book of original entry.

26) **Ledger:** It is a book in which various accounts are opened.

27) **Brought Down (b/d):** This term is written in the ledger to show the Opening Balance in any account. It suggests that the account has been brought down from the previous period.

27) **Carried Down (c/d)** This is written in the ledger account at the time of closing the account.

Accounting Principles

If accounting has to serve the purpose of communicating the results of a business to the outside world, it should be based on certain uniform and

scientifically laid down principles. Accounting Principles or standards are general rules adopted in accounting. These principles enable standardisation in recording and reporting of financial information. They are developed for common usage to ensure uniformity and understandability. Accounting Principles may be defined as those rules of conduct or procedure which are adopted by the accountants universally while recording the accounting transactions. Accounting principles are not rigid. They are in the process of evolution, i.e. they are fast developing. Accounting principles can be classified into two categories.

(1) Accounting concepts and (2) Accounting Conventions

Accounting Concepts

Accounting concepts mean the assumptions or conditions upon which accounting is based. There are a number of accounting concepts agreed upon and adopted by accountants. Some of the important accounting concepts are:

1) **Business Entity Concept:** In accounting, business is treated as an entity different from the proprietor. The business and the proprietors, i.e. owners, are regarded as two separate entities (i.e. parties). All the transactions of the business are recorded in the books of the business from the view point of business as an entity. In case this concept is not followed, affairs of the business will be mixed with the personal transactions of the proprietor and the true picture of the business will not be known. Even the proprietor is regarded as creditor to the extent of the capital contributed by him to the business. Capital is regarded as liability of the business to the proprietor.

2) **Dual Aspects Concept or Accounting Equation Concept or Balance Sheet Concept:** According to this concept, every business transaction has a dual aspect. Every business transaction always results in receiving of some benefit of some value and giving of some other benefit of equal value. For instance, when a business purchases goods for cash, it receives goods of some value and gives cash of equal value. Every business transaction involves dual or double aspects of equal value so in accounting, a record is made of the dual or two aspects of each transaction. The dual aspect is also expressed in another form of equation as under:

Capital + Liabilities – Assets or

Capital = Assets – Liabilities

Suppose Satyanarayana commences business with Rs. 50,000 cash. This fact is recorded at two places.

(a) Business has received Rs. 50,000 in cash (Asset) and (b) Satyanar-

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ayan has a claim on the business for Rs. 50,000 (liability). The equation is:

Capital	=	Assets
Capital of Satyanarayan Rs. 50,000		Cash Rs. 50,000

Suppose cash is used for the purpose of purchasing Machinery worth Rs. 30,000 and goods worth Rs. 15,000 then equation would be

Capital	=	Assets
Rs. 50,000 capital	=	Machinery Rs. 30,000+stock of goods Rs. 15,000 + Cash Rs. 5,000

Suppose, he borrows Rs. 25,000, then

Capital + Liabilities	=	Assets
Capital Rs. 50,000+Loan Rs. 25,000		Machinery Rs. 30,000 + Stock Rs. 15,000 + Cash Rs. 30,000.

3) **Going Concern Concept:** Accounting is done on the assumption that the business shall have a long life and it will continue to exist until it is dissolved. It is for this reason that fixed assets are recorded at original cost and are depreciated on the basis of their expected life rather than on the basis of market value. It is not proper to show fixed assets in the Balance Sheet at the market value, as they are not intended to be sold immediately.

4) **Cost Concept:** According to this concept, an asset is recorded in the books at the price paid to acquire it and this cost is the basis for all subsequent accounting for the asset. Assets are not recorded at market values because these values keep on changing with changes in price level from time to time.

5) **Money Measurement Concept:** The money measurement concept signifies that in accounting a record is made only of those transactions or events which can be expressed in terms of money. Any happening or fact which can not be expressed in terms of money cannot be recorded in accounting books. Non-monetary events such as retirement of manager, sales policy of management, working conditions of workers, etc. cannot be recorded in accounting books. The money measurement concept has one great advantage. It helps a concern to express heterogeneous items such as bank balance, stock-in-trde, Furniture, machinery buildings etc. in terms of a common denominator viz money.

6) **Accounting Period Concept:** Even though it is assumed that business will continue to exist for a long period, it is necessary to keep accounts

in such a way that the results are known at frequent intervals. Accountants generally adopt a twelve month period for measuring the income of a concern. This time interval is called "Accounting Period".

Accounting Conventions

Accounting conventions refer to customs, traditions, usages or practices followed by accountants as a guide in preparation of financial statements. They are followed to make the financial statements clear and meaningful.

1) **Convention of Consistency :** The convention of consistency signifies that the accounting practices and methods should remain consistent (unchanged) from one acounting year to another. In other words, accounting practices should remain the same from one period to another. Comparison of results from one period to another is possible only when same accounting rules are followed. For example, if a concern adopts Reducing Instalment method of depreciation in one year and Straight Line Method of depreciation in another year, then it will be difficult to make comparison between the results of the two periods. Sometimes, wrong conclusions may be drawn. If change becomes necessary the change and its effect should be stated clearly.

2) **Convention of Disclosure :** The convention of disclosure means that all the material facts must be disclosed in the financial statements. For example, in case of sundry debtors not only the total amount of sundry debtors should be disclosed, but also the amount of good and secured debtors, the amount of good, but unsecured debtors and amount of doubtful debts should be stated. Full disclosure does not mean disclosure of each and every item of information. It only means disclosure of such information which is of significance to owners, investors and creditors.

3) **Convention of Materiality :** According to this convention, a detailed record is made only of those business transactions which are material (i.e. signficiant). Accounts must not be over burdened with unnecessary minute details. Only material facts should be disclosed "An item should be regarded as material if there is reason to believe that knowledge of it would influence the decision of informed investors." Hence, unimportant matters should be either left out or merged with other items.

4) **Convention of Conservatism:** This convention is based on the policy of 'playing safe'. According to this convention all possible or expected losses should be provided for but unearned or unrealised profit should be left out. Examples of application of this convention are valuation of stock at cost price or market price, whichever is less, making

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Provision for doubtful debts etc. The idea behind the convention of conservatism is that the financial position of a firm should not be shown better than what it is.

Branches of Accounting

The various branches of Accounting are as follows.

1) **Financial Accounting** also known as historical accounting deals with recording, classifying and summarising business events. The day-today transactions are journalised and posted in the ledger and at the end of the year profit and loss account and balance sheet are prepared. The object of financial account is to show the profit or loss made by a business concern and its financial position as on a particular date.
2) **Cost Accouning:** The object of cost accounting is to find out the cost of the goods produced and services rendered by a business concern. It also helps the business in controlling the costs by indicating avoidable losses and wastes. It helps at estimating costs in future. The emphasis is on ascertainment of cost and future decision making.
3) **Management Accounting:** The management accounting is concerned with internal reporting of information to management for (a) planning and controlling operations (b) decision making and (c) formulating long-term plans.

Basis of Accounting

The matching of revenues and expenses of a period can be done on the three following basis.

1) **Cash Basis:** In the cash system of accounting, entries are made only when cash is received or paid. No entry is made when a payment or receipt is merely due, In other words, the revenues are not recognised and recorded unless they are received in cash. Similarly expenses are recognised only when they are paid in cash. Professional persons like doctors, lawyers and non-trading concerns generally adopt this system of recording business transactions. This system does not make a complete record of financial transactions in an accounting period. Hence it does not disclose the correct profit or loss for a particular period and will not disclose true and fair position of the business on the specified date.
2) **Mercantile or Accrual Basis:** Under this system, income as well as expenses are considered on the basis of their occurrences in an accounting period and not on the basis of their actual receipts and payments. Hence, incomes and expenses are recognised if they belong to the particular period, irrespective of the fact whether they are received or paid

in that period. It takes into consideration all transactions relating to a particular period. Outstanding expenses and incomes are taken into consideration. Hence, it discloses correct profit or loss for a particular period and shows true and fair financial position of a business on a particular day. The Companies Act requires all companies to maintain accounts on accrual basis of accounting.

3) **Mixed Basis:** It is a combination of both the basis of maintaining accounts. Income are recorded on cash basis, but expenses are recorded on mercantile basis. This is a conservative principle where in all expenses relating to a period whether actually paid or not is considered whereas only that income which is received in cash is taken into consideration.

Accounting Systems

There are two systems of accounting. They are:
(1) Single-Entry System (2) Double-Entry System

Single Entry System:

The system which does not totally follow the principles of double-entry system, is called Single Entry System'. Under this system complete record of each and every transaction is not maintained. Under this method real and nominal accounts are not maintained. Transactions are recorded only in Cash Book and only Personal accounts are maintained. It is not proper to call it 'system' because it is not based on any scientific system like Double Entry System.

Double-Entry System:

According to this system, every transaction has two-fold aspect i.e. one party receiving benefit and the other party giving the benefit. When we receive something, we give something else in return. For example, when we purchase goods for cash, we receive goods and give cash in return. Similarly, when we sell goods on credit, goods are given and the customer becomes debtor. This method of writing every transaction in two accounts is known as Double-Entry System. Every transaction is divided into two aspects, debit and credit. One account is to be debited and another account is to be credited for every transaction in order to have a complete record of the same. Every transaction affects two accounts in opposite direction. A transaction has to be recorded in two different accounts on opposite sides of an equal value. Both the accounts cannot be debited or credited. One account has to be debited and the other account has to be credited. The basic principle of Double-Entry System of Book-Keeping is that for every debit there is a corresponding credit of equal value.

Advantages of Double-Entry System:

The double-entry is the only scientific and satisfactory system of accounting. The advantages are:

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1) In provides a complete record of all business transactions, as it records both the aspect of every transaction.
2) It provides not only complete, but also reliable record of all transactions of a concern.
3) As both the aspect of every transaction are recorded, it is possible to prepare trial balance and check the arithmetical accuracy of books of accounts.
4) As systematic record of all transactions is kept, possibilities for misappropriation and fraud are reduced to the minimum.
5) As nominal accounts are maintained under this system, it is possible to preare a Profit and Loss Account and ascertain true Profit or Loss for a particular period.
6) As complete information about assets, liabilities and Capital is available, it is possible to prepare a Balance Sheet and ascertain the true financial position of the business on any particular date.

Stage of Double-Entry System:

The following are the three stages of a complete system of double-entry:

1) All transactions are first recorded in Journal or Subsidiary Books as and when they take place.
2) All entries in the Journal or Subsidiary Books are posted in the Ledger.
3) All the accounts are closed or balanced and final accounts are prepred.

When these steps are completed, the cycle begins again for the next year.

Classification of Accounts

An account is a summary of the record of all the transactions relating to a person, asset, expense or gain. It has two sides - the left hand called the Debit side and the right hand side, called Credit side.

Accounts are broadly classified into two heads (1) Personal Accounts and (2) Impersonal Accounts. The Latter may be further sub-divided into two (i) Read Accounts (ii) Nominal Accounts. So, accounts can be classified into personal, Real and Nominal.

Personal Accounts:

Personal Accounts are accounts of Persons with whom a concern carries on business. Personal accounts may be:

a) Accounts of natural persons such as Gopal, Suresh etc.

b) Accounts of artificial persons, such as Syndicate Bank. Universal Trading Company etc.
c) Representative Personal Accounts such as outstanding salaries, prepaid Insurance Account etc.

Real Accounts:

Accounts relating to properties or assets of a trader are known as real accounts. It includes tangible assets such as buildings, furniture, cash etc and also intangible assets such as goodwill, trade marks etc.

Nominal Accounts:

Accounts dealing with expenses, losses, gains and incomes are called Nominal Accounts. Examples: Salaries Account, Rent Account, commission Account etc.

Journal

'Journal' mean a day book or daily record. It is the book wherein all the transactions are first recorded in chronological order (i.e. as and when they take place). It is a book of prime, original or first entry, as all business transactions/are first recorded in the journal. From Journal the posting are made in the ledger. Journal is only subsidiary book i.e. a book which is subordinate to the ledger. Which is the principal book of accounts. The journal analyses the various transactions into their debits and credits so that they could be easily posted to the ledger accounts. In other words journal is helpful in the preparation of accounts in the leger. The process of recording transactions in Journal is termed as 'Journalising'. The journal is ruled a follows.

Journal

1	2	3	4	5
Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
Year Month Day	Name of A/c (to be debited) Dr. To Name of A/c (To be credited) (Narration or explanation)		X	X

Column (1) (Date) The date on which the transaction took place is entered in this column. The year is written on the top, then the date column is divided in two parts, the first is divided into two parts, the first part is used for writing the month and the second part is used for writing the date.

Column (2) (Particulars) In the first line, the name of the account to be debited is written. The word 'Dr' (i.e. the abbreviation of the term 'Debit') is written at the end of the first line. In the second line some space is left and the word "To' is written before the name of the account to be credited. Then the name of the account to be credited is written.

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A brief explanation. usually beginning with the word. 'Being' or 'For' i written called 'narration'. The 'narration' explains the reason for debiting and crediting the particlar accounts and helps one to understand the nature and purpose of the journal entry at a future date. To separate one entry from another, a line is drawn below every entry to cover particualrs column only. The line does not extend to other columns.

Column 3 (L.F.) L.F. stands for 'Ledger Folio' In this column the page numbers on which the various accounts appear in the ledger are entered.

Column 4 (Debit Amount) In this column the amount to be debited against the Debit Account is written.

Column 5 (Credit Amount) In this column, the amount to be credited against the Credit Account is written.

Basic Accounting Rules or Conventional Rules

There are three rules for recording the transactions

Personal Accounts	
Debit	The Receiver
Credit	The Giver
Real Accounts	
Debit	What comes in
Credit	What goes out
Nominal Accounts	
Debit	Expenses and Losses
Credit	Incomes and gains

Alternative Rules of Debit and credit formulated by American Accountants.

Under the alternative rules of double-entry system developed by the American accountants, for the purpose of recording business transactions in the books of a business concern, the various accounts are classified into five categories. They are (1) Assets Accounts (2) Laibilities Accounts (3) Capital Account (4) Expenses and losses accounts (5) Incomes and gains Accounts.

The rules of debit and credit are stated through equation.

Rules of Accounting Equation.

In case of Assets	
Debit	Increase in an asset
Credit	Decrease in an asset
In case of liabilities	
Debit	Decrease in an liability
Credit	Increase in a liability

In case of Capital	
Debit	Decrease in Capital
Credit	Increase in Capital
In case of expenses and Losses	
Debit	Increase in an expenses or a loss
Credit	Decrease in an expense or a loss
In case of Incomes and gains	
Debit	Decrease in an income or a gain
Credit	Increase in an income or a gain

Students should note whether they follow the conventional rules or the alternative rules given by the American Accountants the Journal Entry will be the same.

Steps required for Journalising

For Journalising a transaction, i.e. for passing an entry in the Journal, the following steps required to be taken.

1) First ascertain the two accounts involved in the transaction. It should be noted that the account of firm (in whose books the transaction is recorded) should not be taken into account, as the entry is passed in the books of that firm. Only the accounts of other persons with whom the firm deals. should be taken into account.
2) Then see the nature of the accounts invovled.
3) Then apply the corresponding or relevant rules for debit and credit and find out which accounts is to be debited and which account is to be credited. If one account is debited, the other account is credited. Both the accounts cannot be only debited or only credited.

Illustration 1 : Give Journal entries for the following.

1. Ram commenced business with Rs. 50,000
2. Purchased Furniture for cash Rs. 3,000
3. Purchased Machinery from Manoj on credit Rs. 40,000
4. Received cash from Goyal Rs. 8,000 on Account.
5. paid Rent to landlard Rs. 500

SOLUTION :

EXPLANATION

Tansaction No. 1: In this case the two accounts involved are cash Account and Capital Account. Cash Account is real account and Capital Account is a personal Account. The rule regarding real accounts is : Debit what comes in, credit what goes out. Cash is coming into the business. It should be debited. The rule regarding personal accounts is : Debit the receiver, Credit the giver. The properietor is giving cash, he is the giver

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his capital account should be credited. The same conclusion will be drawn if we apply the Accounting Equation. Cash is an Asset. The rule regarding assets is debit if there is an increase in the asset. credit if there is a decrease in an asset. Threre is an increase in Asset i.e. cash. Hence Cash Account should be debited. The rule regarding capital is debit if there is decrease in capital. credit if there is an increase in capital. There is an increase in capital, hence Capital Account should be credited.

Transaction No. 2: In this case, the two accounts involved are Furniture Account and cash Account. Both the accounts are real accounts. The rule regarding real accounts is : Debit what comes in, credit what goes out. Furniture is coming into the business hence it should be debited, cash is going out of the business, hence it should be credited. Let us study the transaction from point of view of Accounting Equation. Both Furniture and Cash are assets. The rule regarding assets is : Debit if there is an increase in asset, Credit if there is a decrease in asset. Furniture is purchased, hence there is an increase in asset. Hence Furniture Account should be debited. Cash is paid, hence there is decrease in asset. Hence Cash Account should be credited.

Transaction No. 3: In this case, the two accounts involved are Machinery Account and Manoj Account. Machinery Account is a real account and Manoj Account is personal account. Machinery is coming into business. It should be debited. Manoj is supplying the machine on credit. He is the giver. His account should be credited. Let us apply the rule of accounting equation. There is an increase in the value of asset (Machinery). Hence Machinery Account should be debited. Machinery is purchased on credit. There is an increase in liability. Hence Manoj Account should be credited.

Transaction No. 4: In this case, the two involved are cash Account and Gyal Account is personal Account. Cash in coming in hence cash Account should be debited, Goyal is the giver, hence Goyal Account should be credited. From Accounting Equation point of view both cash and Goyal (Debtor) are assets. When cash is received. Asset (Cash) is increasing hence cash Account should be Debit. When amount is received from Debtor on account the balance of Debtors is decreasing. Hence Goyal Account (Debtor) should be credited.

Transaction No. 5: The two accounts involved are Rent Account and Cash Account. Rent Account is a nominal account and Cash Account is real account. The rule regardig Nominal Account is : Debit expenses and losses and credit incomes and gains. Rent paid is an expense hence Rent Account should be debited. Cash is going out. Hence Cash Account

should be credited. Let us consider this transaction from Accounting Equation point of view. When rent is paid. there is an increase in Expense (Rent), hence Rent Account should be debited Cash paid results in decreasre in Asset (Cash). Hence cash Account should be credited.

SOLUTION:

In the books of Ram

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
?				
1	Cash Account Dr. To Capital Account (Being capital brought into business)		50,000	50,000
2	Furniture Account Dr. To Cash Account (Being Furniture purchased for cash)		3,000	3,000
3	Machinery Account Dr. To Manoj Account (Being machinery purchased on credit)		40,000	40,000
4	Cash Account Dr. To Goyal Account (Being cash received from Goyal, a customer)		8,000	8,000
5	Rent Account Dr. To Cash Account (Being rent paid to landlord)		500	500

Illustration 2 : Journalise the following transactions.

1997

Jan 1.	Pankaj commenced business with a capital of	Rs.	50,000
2.	Deposited in bank	Rs.	40,000
5.	Purchased goods from Krishna on credit	Rs.	10,000
7.	Sold goods of Rama on credit	Rs.	8,000
9.	Purchased goods from Manish for Cash	Rs.	5,000
12.	Sold goods for Cash to Sailesh	Rs.	8,500

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15. Purchased machinery from Ajay Engineering Company, payment made by cheque Rs. 20,000
18. Issued cheque to Krishna Rs. 7,500
20. Received interest from Ashok Rs. 700
22. Cash withdrawn from bank for office use Rs. 2,000
24. Amount withdrawn from bank for personal use Rs. 800
27. Took loan from Rajiv Varma Rs. 15,000
29. Cash witdrawn from office for personal use Rs. 1,000
30. Goods withdrawn for personal use Rs. 2,000
31. Paid rent to landlord by cheque Rs. 600

SOLUTION :

Journal

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
1997 Jan 1	Cash Account Dr. To Capital A/c (Being cash invested in business)		50,000	50,000
2	Bank Account Dr. To Cash Account (Being cash deposited in bank)		40,000	40,000
5	Goods Account Dr. To Krishna Account (Being goods purchased from Krishna on credit)		10,000	10,000
7	Rama Account Dr. To Goods Account (Being goods sold ot Rama on credit)		8,000	8,000
9	Goods Account Dr. To Cash Account (Being goods purchased for cash)		5,000	5,000
12	Cash Account Dr. To Goods Account (Being goods sol for cash)		8,500	8,500
15	Machinery Account Dr. To Bank Account (Being machinery purchased payment made by cheque)		20,000	20,000

18	Krishna Account Dr. To Bank Account (Being interest received)		7,500	7,500
20	Cash Account Dr. To Interest Account (Being interest received)		500	500
22	Cash Account Dr. To Bank Account (Being cash withdrawn from bank for office use)		2,000	2,000
24	Drawings Account Dr. To Bank Account (Being amount withdrawn from bank for personal use)		800	800
27	Cash Account Dr. To Rajiv Varma Loan A/c (Being loan taken from Rajiv Varma)		15,000	15,000
29	Drawings Account Dr. To Cash Account (Being cash taken for personal use)		1,000	1,000
30	Drawings Account Dr. To Goods Account (Being goods withdrawn for Personal use)		2,000	2,000
31	Rent Account Dr. To Bank Account (Being rent paid by cheque)		600	600
	TOTAL		1,70,900	1,70,900

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Explanation for the entries

S.L.of Transa-saction	Accounts Involved	Nature of Account	Explanation	Rules for Debit Credit	Account to be Debited	Account to be Credited
1.	Cash A/c Capital A/c	Real A/c PersonalA/c	comes in Giver	Debit what comes in Credit the giver	Cash A/c	Capital A/c
2.	Bank A/c Cash A/c	PersonalA/c Real A/c	Receiver Goes out	Debit the receiver Credit what goes out	Bank A/c	Cash A/c
3.	Goods A/c Krishna A/c	Real A/c PersonalA/c	Comes in Giver	Debit what comes in Credit the giver	Goods A/c	Krishna A/c
4.	Rama A/c Goods A/c	PersonalA/c Real A/c	Receiver Goes out	Debit the receiver Credit what goesout	Rama A/c	Goods A/c
5.	Goods A/c Cash A/c	Real A/c Real A/c	Come in goes out	Debit what comes in Credit what goes out	Goods A/c	Cash A/c
6.	Cash A/c Goods A/c	Real A/c Real A/c	comes in goes out	Debit what comes in Credit What goes out	Cash A/c	Goods A/c
7.	Machinery A/c Bank A/c	Real A/c PersonalA/c	comes in giver	Debit what comes in Credit the giver	Machinery A/c	Bank A/c
8.	Krishna A/c Bank A/c	PersonalA/c PersonalA/c	Receiver Giver	Debit the receiver Credit the giver	Krishna A/c	Bank A/c
9.	Cash A/c Interest A/c	Real A/c NominalA/c	comes in Income	Debit what comes in Credit Income	Cash A/c	InterestA/c
10.	Cash A/c Bank A/c	Real A/c PersonalA/c	comes in Giver	Debit what comes in Credit the giver	Cash A/c	Bank A/c
11.	Drawings A/c Bank A/c	PersonalA/c PersonalA/c	Receiver Giver	Debit the receiver credit the giver	Drawings A/c	Bank A/c

12.	Cash A/c Rajiv var-ma loanA/c	Real A/c PersonalA/c	Comes in Giver	Debit what comes in Credit the giver	Cash A/c	Rajiv Var-ma loanA/c
13.	Drawings A/c Cash A/c	PersonalA/c Real A/c	Receiver goest out	Debit the receiver credit what goes out	Drawings A/c	Cash A/c
14.	Drawings A/c Goods A/c	PersonalA/c Real A/c	Receiver goes out	Debit the receiver Credit what goes out	Drawings A/c	Goods A/c
15.	Rent A/c Bank A/c	NominalA/c PersonalA/c	Expense Giver	Debit expenses & losses Credit the giver	Rent A/c	Bank A/c

Points to be noted while passing journal entries

1. For the purpose of accounting, the properitor should be considered as separate entity (i.e. party) and all transactions with him should be recorded in the books. When the properitor brings cash, Stock or any other asset into the business, then his capital Account should be credited. When cash, stock etc is withdrawn from business, then Drawings Account should be debited. When personal expenses of the properitor such as life insurance premium, Income tax etc are paid by the firm then Drawings Account should be debited and not the expense account such as income tax, life insurance premuum A/c etc. Drawings Account is closed at the end of the year by transfering it to capital Account.
2. If the properitor takes loan from wife for carrying on busines then his wife's loan Account (and not capital Account) should be credited.
3. For easy understanding of beginners, Goods Account is used when ever goods are purchased or sold. But it preferable to split Goods Account into (a) Purchases Account (b) Sales Account (c) Purchases Returns Account or Returns Outwards or Return to Suppliers Account (d) Sales Returns or Returns Inwards or Returns from Debtors A/c.
4. When it is not clearly stated in transaction whether goods are purchased for cash or on credit, the purchase should be considerd as cash purchases, if the name of the supplier of goods is not stated. Example purchased goods Rs. 5,000 is to be regarded as. Cash purchases. On he otherhand, if the name of the supplier is given the

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purchase should be considered as a credit purchase. Example :- Goods purchased from Ram Rs. 8,000 is to be regarded as credit purchases. The same treatment is applicable for sales.

5. Whenever goods are purchased for cash from a party, then the name of the party from whom goods are purchased should be ignored. The amount due to him is already paid, there is no liability on our part to pay him in future. Example : Purchased goods from Satish for cash Rs. 10,000. Here Satish Account should be ignored.
6. Whenever cash is paid to a person for an expense, say salary, rent etc the two accounts involved in the transaction are (1) concered expense Account (and not the party's Account and (2) Cash account. The personal account of the party to whom the payment is mode is not at all involved because payment is made to him for service already rendered by him and he is not liable to pay us any amount at a later date Example : Paid salary to Deepak Rs. 1,000. Here Deepak's Account should not be considered. Similarly when interest, commission etc. is received from a party, then the party's account should not be taken into account Example 'Received commission from Praveen Rs. 500. Here Praveen Account is not to be considered.

Compound Entry :

When ever two or more transactions of the same nature (i.e. transactions where either the account to be debited or the account to be credited is common) take place on the same date a composite or compound or combined journal entry may be passed for them instead of passing a separate Journal entry for each of them. Suppose on 31st March Rs. 2,000 is paid for Rent, Rs. 3,000 for Salaries and Rs. 1,000 for wages, then a compound Journal entry may be passed for all the transactions as follows.

Rent A/c	Dr.	2,000	
Salaries A/c	Dr.	3,000	
Wages A/c	Dr.	1,000	
To Cash A/c			6,000

(Being rent, salaries and wages paid in cash)

Opening Entry

With the begining of a new accounting year, every businessman has to write and keep a new set of books of accounts. The accounts not closed in the previous accounting period are recorded in a new set of books with an entry called. 'Opening entry'. All the assets accounts are debited and liabilities accounts are credited. The difference between the assets and liabilites is to be credited to the capital Account.

Ledger

As explained earlier, after all the transactions are journalised, the entries in the journal are transferred to the appropriate accounts in the ledger to know the exact position of each account on any particular date. In Journal the transactions pertaining to a particular person, asset, expense, or income are recorded at different dates. Hence journal fails to bring together similar transactions. From the journal it is not possible to know the total purchases, sales, rent and salaries paid the amount due from each customer and amount payable to each supplier etc. This limitation is overcome by ledger. Ledger is a book where the various accounts pertaining to a particular person thing or service are grouped together in one place in the form of an account. It contains accounts for all the persons with whom the business deals, for all the assets or things held by the business and for all the expenses incurred and incomes earned by the business. Ledger may be defined as a book which contains records of all transactions permanently in a summarised and classified form.

It is a book of final entry. All business transactions are first recorded in the journal and finally recorded in the ledger. The process of transferring the transactions from journal to the ledger is called 'posting'. Ledger is the main or principal or most important book of the business and hence called 'King of books of accounts'.

Form of the Ledger Account

In the Ledger, each account is allotted one or more pages depending the number of transactions relating to that account. Generally an index is provided at the beginning of the ledger to facilitate easy reference to any particular account. Usually, each ledger account has the shape of the English alphabet 'T'. Each account in the ledger is divided into two equal parts. The left hand side of the account is known as 'Debit' side and the right hand side is called 'Credit' side. Each of the two sides is further divided into four columns namely, date, particulars. J.F. and amount. A ledger account is ruled as follows.

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Dr. **Name of Account** **Cr**

Date	Particulars	J.F.	Amount	Date	Particulars	J.F.	Amount
	To (Name of the account which is credited)				By (Name of the account which is debited)		

Steps for Posting :

1. **Date column :** In this column, date of the transaction is recorded
2. **Particulars :** This column is meant for the recording the details of the transaction. Every entry on the debit side of this column must be prefixed with the word 'To' and on the credit side with the word 'By'. On the debit side after the word 'To' write Name of the credit part of Journal Entry. On the credit side, after the word 'By' write Name of the debit part of the journal entry.
3. **J.F. Column :** J.F. stands for the page number of Journal from where the entry is posted.
4. **Amount column :** In this column the amount with which the account is debited or credited is written.

Points to be noted while preparing ledger accounts While preparing ledger accounts, the following points should be noted.

1. In the ledger, a separate account should be opened for each acount appearing in journal.
2. For all the transactions relating to any particular account, only one account should be opened.
3. The name of the account should be written in bold letters at the top and in the centre of each account.
4. The word Dr. (abbreviation of debit) should be written at the left hand top corner of each account to indicate the debit side of the account, and the word 'Cr' (abbreviation of credit) should be written at the right hand top corner of each account to indicate the credit side of the account.
5. The journal entries should be posted to the ledger accounts in the order of their dates.
6. While making posting in any ledger account, the name of that account should not appear either on the debit side or on the credit side of that account. For example in Rent Account, we cannot have To Rent Account or By Rent Account.
7. The account which is debited in journal, the posting in ledger will also be made on the debit side of that account and the account which is credited in the journal, the posting in the ledger will also be on the credit side of that account. Suppose in the journal Rent Account is debited and

Cash Account is credited. then in the Ledger. the posting will be made on the Debit side of Rent Account and credit side of the Cash Account.

The posting in the ledger is explained with the help of the following example.

Suppose Ram commences business on Jan 1. 1997 with cash Rs. 50,000.

The journal entry will be

JOURNAL

Date	Particular	L.F.	Debit Amount Rs.	Credit Amount Rs.
1997 Jan 1	Cash Account..... Dr. To Capital Account (Being capital introduced in business)		50,000	50,000

LEDGER

Cash Account

Dr. **Cr**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
	To Capital A/c		50,000				

Capital Account

Dr **Cr**

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
					By Cash A/c		5,000

Posting of Compound Entry

Suppose Narendra has to pay Rs. 2,000. He settles his account by paying Rs. 1,900 and he is allowed a discount of Rs. 100, then journal entry is :

JOURNAL

Date	Particulars	L.F.	Debit Amount Rs.	Credit Amount Rs.
?	Cash Account Dr. Discount Account Dr. To Narendra Account (Being cash received from and discount allowed to Narendra)		1,900 100	2,000

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LEDGER

Dr. Narendra Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
?	To Balanced b/d		2.000	?	By Cash A/c		1.900
					By DiscountA/c		100
			2.000				2.000

Dr . Cash Account Cr

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
?	To NarendraA/c		1.900				

Dr. Discount Account Cr.

Date	Particulars	J.F.	Amount Rs.	Date	Particulars	J.F.	Amount Rs.
?	To NarendraA/c		100				

Posting the opening Entry:

Opening entry is not actually posted in the ledger but the accounts are merely incorporated or copied, with the words ' To Balance b/d' or 'By balance b/d' on the debit and credit side respectively. The opening balances of assets, are merely entered in the concerned assets accounts, as 'To Balance b/d", the opening balances of liabilities accounts and capital Account as "By Balance b/d"

Balancing of ledger accounts:

After the transactions have been posted in the various accounts, they are balanced. The term 'balance' is an accounting term which means the difference between the two sides of an account. The following steps are followed for balancing the accounts.

1. Take the totals of the two sides of the account on a rough sheet.
2. Ascertain the difference between the totals of two sides. The difference is called 'balance'
3. Enter the difference in the amount column of the side showing less total. If the credit side total is less, write in the particulars column on the credit side of the account "By Balance c/d". Similarly, if the debit side total is less, then write on the debit side of the account "To balance c/d"
4. After putting the difference in the appropriate side of the account, add

both the sides of the account. Draw a thin line above and below the total.

5. At the beginning of the next accounting period, the balance is written on the opposite side with the words "To Balance b/d" or "By Balance b/d" as the case may be.

Significance of 'Debit' and 'Credit' Balances

An account is said to have a debit balance if the total of its debit side is more than the total of the credit side. An account is said to have credit balance, if the total of its credit side is more than the total of its debit side.

If a personal account shows debit balance it signifies that the person concerned has received more benefits from the business than what he has given to the business. It signifies that he is a debtor. i.e. he has to pay money to the firm. On the other hand, a credit balance in a personal account signifies that the person concerned has given more benefit to the firm than what he has received from the business. In other words, it signifies that he is a creditor, i.e. business has to pay to him.

Real accounts generally show debit balance. It denotes that the firm owns property or asset to the extent of balance in the account. An asset account may show credit balance only when asset is sold at a profit, which has to be transferred to Profit and Loss Account.

Debit balnce in nominal accounts signifies that expense or loss to that extent has been incurred by the firm and credit balance denotes that gain or income has been earned by the firm. Nominal Accounts are not to be balanced as they are closed by transfer to profit and loss Account. However, for the purpose of preparing Trial balance, nominal accounts are also balanced and later transferred to profit and loss account.

Illustration :

Guru Raj was carrying on business as general merchant. On 1st January, 1993 his assets and liabilities were as under:- Assets: Furniture Rs. 8,000, stock Rs. 35,000; Cash at Bank Rs. 14,000; Cash in hand Rs. 500; Due from Vadiraj Rs. 2,500; Due from Vijay Rs. 2,000. Liabilities: Due to Laxmanachar Rs. 9,000; Due to Vasant Kumar Rs. 6,000.

The transactions during January, '93 were:

			Rs.
Jan	2	Cash Sales	6,000
	3	Sales to Krishna Murthy	1,500
	5	Purchases from Sitaram	1,600

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7	Paid Fire Insurance Premium	200
9	Issued cheque in favour of Laxmanachar, in full settlement of the amount due	8,900
12	Received cheque from Vadiraj on account	1,500
16	Issued cheque to Vasant Kumar on account	2,000
17	Cash purchases	2,000
18	Cash deposited in bank	2,500
20	Cash paid for advertising	500
24	Borrowed Rs. 10,000 from Mrs. Guru Raj, amount deposited in bank.	
29	Amount withdrawn from bank for personal use	5,000
31	Paid rent to Land Lord by cheque	600

Journal of Guru Raj

Date	Particulars	L. F.	Debit Rs.	Credit Rs.
1993				
Jan.1	Furniture A/c Dr.		8,000	
	Stock A/c Dr.		35,000	
	Bank A/c Dr.		14,000	
	Cash A/c Dr.		500	
	Vadiraj A/c Dr.		2,500	
	Vijay A/c Dr.		2,000	
	To Laxmanachar A/c			9,000
	" Vasant Kumar A/c			6,000
	" Capital A/c			47,000
	(Being Opening balances of assets and liabilities, capital taken as balancing figure)			
Jan.2	Cash A/c Dr.		6,000	
	To Sales A/c			6,000
	(Being goods sold for cash)			
Jan.3	Krishna Murthy A/c Dr.		1,500	
	To Sales A/c			1,500
	(Being goods sold on credit to Krishna Murthy)			
Jan.5	Purchases A/c Dr.		1,600	
	To Sitaram A/c			1,600
	(Being goods purchased from sitaram)			

Jan.7	Insurance A/c Dr.	200	
	To Cash A/c		200
	(Being insurance Premium paid)		
Jan.9	Laxmanchar A/c Dr.	9,000	
	To Bank A/c		8,900
	" Discount A/c		100
	(Being amount paid to Lamanchar and discount allowed by him)		
Jan.12	Bank A/c Dr.	1,500	
	To Vadiraj A/c		1,500
	(Being cheque received from Vadiraj)		
Jan.16	Vasant Kumar A/c Dr.	2,000	
	To Bank A/c		2,000
	(Being cheque issued to Vasant Kumar)		
Jan.17	Purchases A/c Dr.	2,000	
	To Cash A/c		2,000
	(Being Cash purchases)		
Jan.18	Bank A/c Dr.	2,500	
	To Cash A/c		2,500
	(Being cash deposited in bank)		
Jan.20	Advertising A/c Dr.	500	
	To Cash A/c		500
	(Being cash paid for advertising)		
Jan.24	Bank A/c Dr.	10,000	
	To Mrs. Guru Raj Loan A/c		10,000
	(Being loan taken, amount deposited in bank)		
Jan.29	Drawings A/c Dr.	5,000	
	To Bank A/c		5,000
	(Being amount withdrawn from bank for Personal use)		
Jan. 31	Rent A/c Dr.	600	
	To Bank A/c		600
	(Being rent paid through cheque)		

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Ledger Accounts

Capital Account

Dr.				Cr.			
		Rs.	1993			Rs.
			Jan.1	By Balance b/d		47,000

Drawings Account

1993		
Jan.29	To Bank A/c	5,000

Furniture Account

1993		Rs.	1993		Rs.
Jan.1	To Balance b/d	8,000	Jan.31	By Balance c/d	8,000
Feb.1	To Balance b/d	8,000			

Bank Account

1993		Rs.	1993		Rs.
Jan.1	To Balance b/d	14,000	Jan.9	By Laxmanchar A/c.	8,900
	" Vadiraj A/c	1,500	" 16	" Vasant Kumar	2,000
" 18	" Cash A/c	2,500	" 29	" Drawings A/c	5,000
" 24	" Mrs. Guru Raj Loan A/c.	10,000	" 31	" Rent A/c	600
			" 31	" Balance c/d	11,500
		28,000			28,000
Feb.1	To Balance b/d	11,500			

Cash Account

1993		Rs.	1993		Rs.
Jan.1	To Balance b/d	500	Jan.7	By Insurance A/c	200
Jan.2	" Sales A/c	6,000	" 17	" Purchases A/c	2,000
			" 18	" Bank A/c	2,500
			" 20	" Advertising A/c	500
			" 31	" Balance c/d	1,300
		6,500			6,500
Feb.1	To Balance b/d	1,300			

Vadiraj Account

1992		Rs.	1993		Rs
Jan.1	To Balance b/d	2,500	Jan.12	By Bank A/c	1,500
			Jan.31	" Balance c/d	1,000
		2,500			2,500
Feb.1	To Balance b/d	1,000			

Vijay Account

Dr.				Cr.			
1993		Rs.	1993			Rs.
Jan.1	To Balance b/d	2,000	Jan.31	By Balance c/d		2,000
Feb.1	To Balance b/d.	2,000				

Laxmanchar Account

1993		Rs.	1993		Rs.
Jan.9	To Bank A/c	8,900	Jan.1	By Balance b/d	9,000
	Discount A/c	100			
		9,000			9,000

Vasant Kumar Account

1993		Rs.	1993		Rs.
Jan.16	To Bank A/c	2,000	Jan.1	By Balance b/d	6,000
" 31	" Balance c/d	4,000			
		6,000			6,000
			Feb.1	By Balance b/d	4,000

Krishna Murthy Account

1993		Rs.	1993		Rs.
Jan.3	To Sales A/c.	1,500	Jan.31	By Balance c/d	1,500
Feb.1	To Balance b/d	1,500			

Sitaram Account

1993		Rs.	1993		Rs.
Jan.31	To Balance c/d	1,600	Jan.5	By Purchases A/c	1,600
			Feb.1	By Balance b/d	1,600

Mrs. Guru Raj Loan Account

1993		Rs.	1993		Rs.
Jan.31	To Balance c/d	10,000	Jan.24	By Bank A/c	10,000
			Feb. 1	By Balance b/d	10,000

Sales Account

			1993		Rs.
			Jan.2	By Cash A/c	6,000
			" 3	" Krishna Murthy	1,500

Purchases Account

1993		Rs.
Jan. 5	To Sitaram A/c	1,600
" 17	To Cash A/c	2,000

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Dr. **Stock Account** **Cr.**

1993		Rs.			
Jan.1	To Balannce b/d	35,000			

Insurance Account

1993		Rs.			
Jan.7	To Cash A/c	200			

Discount Account

			1993		Rs.
			Jan. 9	By Laxaman-Char A/c	100

Advertising Account

1993		Rs.			
Jan.20	To Cash A/c	500			

Rent Account

1993		Rs.			
Jan.31	To Bank A/c	600			

Note: Nominal Accounts have not been balanced. At the end of the year they will be closed by transfer to Trading/Profit and Loss Account. Net Profit will be credited to Capital Account, Drawings Account will be closed by transfer to Capital Account.

Subsidiary Books

When business transactions are very few, there is only one Journal, wherein all transactions are recorded. In big business concerns, recording of all transactions in one journal and then posting them into ledger will be very inconvenient and will involve a lot of clerical work. Moreover, transactions are usually of repetitive nature. To overcome this difficulty big business concerns have introduced the system of subsidiary books. Under the system of subsidiary books, instead of maintaining only one book of original entry called Journal for all types of transactions, several books of original entry called Subisidiary Books are maintained.

Subsidiary books are books of original entry as all transactions are first recorded in these books before they are recorded in respective accounts in ledger. These special journals are called Subsidiary Books because they are subsidiary to the principal or Main book namely Ledger. Subsidiary books do not provide final accounting information relating to the business but merely help in the preparation of ledger accounts.

Advantages

(1) Sub-division of the Journal into subsidiary books will make the recording work easy and quick

(2) It helps in the division of labour as accounting work may be divided among a number of clerks.

(3) Easy reference becomes possible since each subsidiary book provides information relating to a particular aspect of the business only.

(4) There is a substantial reduction of clerical work.

Normally the following Subsidiary Books are used in business.

(1) Cash Book - to record receipts and payments of cash including deposits and payments out of bank.

(2) Purchases Book - to record credit purchases of goods.

(3) Purchases Returns Book - to record all purchases returns i.e. all goods returned by the trader to his suppliers.

(4) Sales Book - to record all credit sales of goods.

(5) Sales Returns - to record all sales returns i.e. all goods returned by the customers to the trader.

6. Bills Receivable Book

7. Bills Payable Book

(8) Journal Proper - to record all those transactions that cannot be recored

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in any of the above books. Example opening entries, closing entries, adjustment entries etc.

Cash Book

In every business there will be a large number of cash transation i.e., receipts and payments of cash. So it is necessary to maintain a separate subsidiary book for recording the cash transactions. The separate subsidiary book maintained for recording cash transactions is called the Cash Book.

Cash Book is a book of prime, or first entry, because all cash transactions are first recorded in the Cash Book. It is also a book of 'final entry' (i.e. ledger) as cash book itself serves as cash account and bank account. Separate Cash Account and Bank Account are not opened.

Cash Book serves the following purposes.

(1) To find out the total cash receipts and cash payments during a particular period

(2) To know the Cash and Bank Balance at any time without the physical (i.e. actual) counting of cash and verification of Pass Book.

(3) To verify the correctness of cash in hand and cash at bank.

Types of Cash Book

Cash Book can be of one of the following types.

(1) Simple Cash Book or Cash Book with only cash column.

(2) Two - column or Cash Book with cash and Discount columns.

(3) Three - column or Cash Book with Cash, Discount and Bank Columns.

Simple Cash Book or Cash Book with only Cash Columns :

A simple cash book makes a record of only cash transactions. It is like an ordinary Cash Account. It is maintained by small business concerns. It has two sides - (i) Debit side or left hand side and (ii) Credit side or right hand side. The Debit side is used for recording cash receipts and the credit side is used for recording cash payments. A single-column Cash Book is ruled as follows :

Cash Book

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.				Rs.

Date Column On the debit side the date of receiving cash and on the credit side the date of paying cash is recorded.

Particulars Column In particulars column on the Debit side the name of the Account from which cash is received is written and on Credit side the name of the Account to which payment is recorded. A brief narration giving explanation for the entry is also given in particulars column.

L.F. Column In this column the ledger folio of the account in which the transaction is posted is recorded.

Amount Column Amount column is meant to record the amount received (on Dr. side) and amount paid (on the credit side).

The Cash Book has to be balanced at the end of the given period. The total of the debit side sould always be more than the total of the credit side, as the cash payments cannot be more than cash receipts. The Balance indicates the Cash on hand at the end of period.

When cash transactions are entered in the Cash Book, only one aspect of cash transactions is recorded. To complete the double entry of cash transactions, all items appearing in the cash Book should be posted to the respective ledger accounts.

All the items (except the opening cash balance) appearing on the debit side of the cash book have to be posted to the credit side of the respective ledger accounts as "By Cash Account". All the items (except the closing cash balance) appearing on the credit side of the Cash Book have to be posted to the debit side of the respective ledger accounts as "To Cash Account."

Two Column Cash Book or Cash Book with Cash and Discount Columns

This Cash Book is an extension of Simple Cash Book. Under this method an additional column is provided both on debit side and credit side for recording discount allowed and discount received.

Cash Discount : It is a rebate or an allowance made by the receiver of cash to the payer. Cash discount arises when payment is made before a specified date. For instance, the supplier may say that if payment is made within one month a discount of 2% will be allowed. It means that a debt of Rs. 100 can be discharged by paying only Rs. 98 before the end of the month.

Thus cash discount allowed by the trader to his debtor is a loss to him and is called Discount Allowed and is recorded on the debit side of cash book. Whereas cash discount received by him from his creditor is gain and is known as Discount Received and is recorded on credit side of the Cash Book.

However, cash discount should not be confused with trade discount. Trade Discount is an allowance made by the manufacturer or wholesaler to the retailer, off the catalogue price of goods sold. It is granted to old and regular customers, in case of bulk sales or as a custom of trade. The main idea behind providing the trade discount is to enable the retail trader to sell of goods at catalogue price by keeping some margin to meet his business expenses and profit. Trade discount is deducted from catalogue price and the balance is recorded in the books of account. There is no entry made for trade discount in the books of the trader, it never appears in the books of account.

Differences between Cash Discount and Trade Discount

	Cash Discount	Trade Discount
1.	Cash Discount is an allowance made by the receiver of cash to the person paying it.	Trade Discount is an allowance given by the wholesaler to the retailer.

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2.	It is deducted from the amount of debt or net invoice price.	It is deducted from the Catalogue price in the invoice.
3.	It occurs at the time of settlement i.e. when cash is received or paid.	It occurs at the time of sale or purchase.
4.	The object is to induce the debtors to pay promptly with–in the period of credit.	Its object is to enable the retail to sell goods at the catalogue price and to keep margin of profit
5.	It is recorded in the books of debtor and creditor.	It is not recorded in the books of either seller or buyer.

In the cash column on the debit side actual cash received will be entered; the amount of the discount allowed, if any, to the customer concerned will be entered in the discount column. Similarly, actual cash paid will be entered in the cash column on the payments side and the discount received in the discount column. The 'Proforma' of Double Column Cash Book is as follows:

Double Column Cash Book

Dr. Cr

Date	Particulars	L. F.	Dis-count Rs.	Cash Rs.	Date	Particulars	L. F.	Dis-count Rs.	Cash Rs.

Balancing:- It should be noted that discount columns are not balanced. They are merely totalled. The total of the discount column on the debit side shows the total discount allowed to customers and is debited to the discount account. The total of the discount column on the credit side shows total discount received and is credited to the Discount Account. The cash columns are balanced as shown in Single column cash book.

Posting from the Cash Book with cash and discount columns.

When cash is received from a person and some discount is allowed to him, the person's account must be credited with both cash received and also discount allowed by writing 'By Cash' and 'By Discount'. In a similar way when cash is paid to some person and discount is allowed by him, the person's account must be debited is 'To Cash' and 'To Discount'.

As said earlier, totals of discount allowed and discount received columns should be debited and credited respectively in Discount account.

Illustration 1

Record the following transactions in a Cash Book with Cash and Discount columns.

			Rs.
1997			
Jan.	1	Cash Balance	500
	5	Cash Sales	4,000
	10	Paid into bank	3,000
	12	Received cash from Satish (in full settlement of his debt of Rs. 1,500)	1,480
	14	Cash paid to Mehta (Discount allowed Rs. 30)	770
	16	Received cash from Sinha (Discount allowed 15)	585
	22	Paid cash to Ram Mohan	415
		He allowed discount	15
	27	Cash Purchases	300
	29	Paid salaries	2,000
	31	Drew cheque for office use	800

Solution:

Dr. **Cash Book** **Cr.**

Date	Particulars	L. F.	Dis-count	Cash	Date	Particulars	L. F.	Dis-count	Cash
1997			Rs.	Rs.	1997			Rs.	Rs.
Jan 1	To Balance b/d			500	Jan.10	By Bank A/c (Cash deposited in bank)			3,000
" 5	" Sales A/c (Cash sales)			4,000					
" 12	" Satish A/c (Cash received and discount allowed)		20	1,480	" 14	" Mehta A/c (Cash paid and discount received)		30	770
" 16	" Sinha A/c (cash received, discount allowed)		15	585	" 22	" Ram Mohan A/c (Cash paid, discount received)		15	415
" 31	" Bank A/c (cash drawn from bank for office use)			800	" 27	" Purchases A/c (Cash Purchases)			300
					" 29	" Salaries A/c (Paid salaries)			2,000
					" 31	" Balance c/d			880
			35	7,365				45	7,365
Feb.1	To Balance b/d			880					

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Cash Book with Discount, Cash and Bank Columns or Three Column Cash Book

The Cash Book which contains bank column in addition to discount and cash columns is called Three Column Cash Book or Cash Book with Discount, Cash and Bank Columns.

The following points must be noted while preparing Cash Book of this type.

(1) **Opening Balance:** The opening balance of cash in hand and cash at bank is written on the debit side as 'To Balance b/d'. The amount of cash in hand is written in cash column and of cash at bank in Bank column. In case of bank overdraft, it is written on the credit side as 'By Balance b/d'.

(2) All the receipts will be written on the debit side. Cash receipts will be entered in cash column and cheques in bank column. If a cheque is received and deposited in the bank on the same day, then it should be entered in Bank Column on the debit side. A cheque received but not deposited in bank on the same day must be first debited in cash column and when it is deposited in bank on some other day it should be treated as deposit of cash in the bank. However, in the absence of any information cheque received may be entered in the Bank column on the assumption that it is deposited in bank for collection on the same day. If any discount is allowed while receiving cash or cheque then it should be entered in Discount column on the debit side.

(3) All payments are entered on the credit side cash payments in cash column and payments through cheque in Bank column. If any discount is received while making cash or bank payment, then it should be entered in Discount column on the credit side.

(4) **Contra Entries:** If cash is deposited in the bank, it should be entered in the Bank column on the debit side as 'To Cash' and again on the credit as 'By Bank'. If cash is withdrawn from Bank for office use, it should be entered in cash column on the debit side as 'To Bank' and again on the credit side in the Bank column as 'By Cash'. These transactions are not posted in the ledger as both the accounts (Cash and Bank) are in the Cash Book itself. For such entries letter 'C' is written in L.F. column on each side to indicate that contra effect of this transaction is recorded on the opposite side. Such entries are called 'Contra entries'.

(5) If a cheque is drawn for personal use, it has to be entered in the Bank Column on the credit side as 'By Drawings Accoun' In such a case, no contra entry is involved

(6) If there are bank charges debited by the Bank to the business concern then it has to be entered in the Bank Column of the Cash Book on the credit side as 'Bank Charges'.

(7) If interest or dividend on securities is collected by the Bank as per our standing instructions, then it has to be entered in the Bank column on the debit side as 'To Interest/Dividends on Securities'.

(8) If a cheque received from a customer and deposited in the bank is dishonoured, then the entry passed for receipt of cheque has to be cancelled by reversing it. i.e. it should be entered on the credit side of Cash Book in the Bank Column as "By Concerned Party Account" (name of the customer) Similarly if a cheque issued to creditor is dishonoured then the entry passed for the issue of cheque has to be cancelled by reversing it, i.e. it should be written on the Debit side in Bank column as "To Concerned Party Account" (Name of the creditor)

(9) **Balancing:** The discount columns are totalled but not balanced. The cash columns are balanced exactly in the same manner as indicated for simple cash book. The process is similar for balancing the bank columns also. It is possible that the bank may allow the firm to withdraw more than the amount deposited i.e. to have an overdraft.

In such a case the total of the bank column on the credit side will be bigger than the one on the debit side. The difference is written on the debit side as 'To Balance c/d'. Then the totals are written on the two sides opposite one another. For the next period the balance is entered on the credit side as 'By Balance b/d'.

Postings from the three column cash book

The double entry of the transactions entered in the cash book is completed by making postings into the ledger. As already explained from debit side the postings are made to the credit of the accounts affected as 'By Cash' or 'By Bank' as the case may be. From the credit side the entries are posted to the debit of the accounts concerned as 'To cash' or 'To Bank' as the case may be. Posting of discount allowed and discount received is same as in two column Cash Book.

The ruling of three column Cash Book will be as follows.

Dr. **Cash Book** **Cr.**

Date	Particulars	L. F.	Dis-count	Cash	Bank	Date	Particulars	L. F.	Dis-count	Cash	Bank
			Rs.	Rs.	Rs				Rs.	Rs.	Rs.

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Illustration 2

From the following particulars in the books of Dinesh Singh Prepare three column Cash Book.

1992			Rs.
Nov. 1	Cash in hand		750
	Cash in Bank		9,700
2	Cash received from Baba Prasad		1,872
	Discount given		28
4	Salaries paid for October		1,500
4	Cash Sales to Ranga Rao		4,700
5	Paid to Veerabhadram through cheque		475
	Discount received		25
17	Cheque received from Raghu Ram (sent to bank)		391
	Discount given		9
19	Withdrawn from bank for personal expenses		2,300
21	Deposited in the bank		862

(Solution on Page No. A–41

Illustration 3

Make out three column Cash Book of Sri Kishore Karwankar from the following particulars.

1997			Rs.
Jan. 1	Cash in hand		1,000
	Cash in Bank		20,000
2	Purchased goods for cash		600
4	Sold goods for cash		2,000
10	Received cash from Birajdar (Discount allowed Rs. 25)		875
12	Issued cheque to Mohan Rao (Discount received Rs. 20)		480
14	Cash deposited in bank		1,000
16	Received cheque from Prabhakar (in full settlement of a debt of Rs. 1,000)		950
20	Bank collects interest on securities		500
22	Received cheque from Kulkarni, deposited in bank		1,000
27	Bank returns cheque of Kulkarni as dishonoured		50
30	Bank charges as per Pass Book		500
31	Amount withdrawn from bank for Office use		1,000
31	Amount withdrawn from bank for personal use		

(Solution on Page No. A–42

Solution:

CASH BOOK

(with Discount, Cash and Bank Columns)

Dr.											Cr.
Date	**Particulars**	**L. F.**	**Dis-count**	**Cash**	**Bank**	**Date**	**Particulars**	**L. F.**	**Dis-count**	**Cash**	**Bank**
			Rs.	Rs.	Rs.				Rs.	Rs.	Rs.
1992						1992					
Nov. 1	To Balance b/d			750	9,700	Nov. 4	By Salaries (salaries paid)			1,500	
" 2	" Baba Prasad (cash received, discount allowed)		28	1,872	—	" 5	" Verabhadram A/c (cheque issued, discount received)		25		475
" 4	" Sales A/c (Cash Sales)			4,700		" 19	" Drawings A/c (amount withdrawn from bank for personal use)				2,300
" 17	" Raghu Ram A/c (cheque received discount allowed)		9		391						
" 21	" Cash A/c (cash deposited in bank)	C			862	" 21	" Bank A/c (cash deposited in bank)	C		862	
						" 30	" Balance c/d			4,960	8,178
			37	7,322	10,953				25	7,322	10,953
Dec. 1	To Balance b/d			4,960	8,178						

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Solution :

CASH BOOK
(with Discount, Cash and Bank Columns)

Dr. **Cr.**

Date	Particulars	L. F.	Dis-count	Cash	Bank	Date	Particulars	L. F.	Dis-count	Cash	Bank
			Rs.	Rs.	Rs.				Rs.	Rs.	Rs.
1997						1997					
Jan. 1	To Balance b.d			1,000	20,000	Jan. 2	By Purchases A/c (goods purchased for cash)			600	
" 4	" Sales A/c (goods sold for cash)			2,000							
" 10	" Birajdar A/c (cash received, discount allowed)		25	875		" 12	" Mohan Rao (cheque issued discount received)		20		480
" 14	" Cash a/c (cash deposited in bank)	C			1,000	" 14	" Bank A/c (cash deposited in bank)	C		1,000	
" 16	" Prabhakar A/c (cheque received, discount allowed)		50		950	" 27	" Kulkarni (cheque received, dishonoured)				1,000
" 20	" Interest on Securities A/c (interest on securities collected by bank)				500	" 30	" Bank charges				50
						" 31	" Cash A/c (amt withdrawn from bank for office use)	C			500
" 22	" Kulkarni (cheque received deposited in bank)				1,000						
" 31	" Bank A/c (cash withdrawn from bank for office use)	C		500		" 31	" Drawings A/c				1,000
						" 31	" Balance c/d			2,775	20,420
			75	4,375	23,450				20	4,375	23,450
Feb. 1	To Balance b/d			2,775	20,420						

Petty Cash Book

In a business house a number of small payments, such as for stationery, telegrams, taxi fare, cartage etc. have to be made. If all these payments are recorded in the cash book, it will become bulky and unwieldy. Also the main cashier will be overburdened with work. Therefore it is usual for firms to appoint a person as Petty Cashier to make small payments.

Petty cashier will record the petty payments in a book called 'Petty Cash Book'. The petty cash book is maintained just like the cash book. Money received from Head cashier is recorded on debit side and payments are recorded on credit side. Generally petty cash book is maintained on **Imprest System:**

Under this system management estimates the expenditure roughly for a period of week or month. Head cashier will give the petty cashier the estimated amount to start with. Petty cashier makes payments and records the transactions is the petty cash book. At the end of the period the petty cashier balances his book. Then the chief cashier pays him the amount which he spent, so that original amount of petty cash with which he started is restored.

Imprest System is very useful specially if an Analytical petty cash book is used. Under this method a seperate column is provided to record each head of petty expense along with a total column. Every payment is entered in the concerned head of petty expenses and in total column. All the payments made are analysed in the column of petty cash book itself, under the different heads of expenses. Hence it is called Analytical petty Cash Book. By going through this book one can easily known the total expenditure and the expense under each head.

Analytical Petty Cash Book

Receipts	Date	Particulars	Voucher No.	Total	Analysis of Payments					
					Conveyance	Cartage	Stationery	Postage & Telegrams	Sundries
Rs.				Rs.	Rs.	Rs.	Rs.	Rs.	Rs.

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Illustration 4

Enter the following transactions in an analytical Petty Cash (kept under imprest system)

		Rs.
2006		
April 1	Received from head cashier	300.00
" 4	Bought Postage & Stamps	15.00
" 8	Paid for Stationery	36.00
" 10	Paid for Cartage	12.00
" 15	Paid for taxi hire	22.50
" 22	Paid office expenses	33.00
" 25	Bought postage stamps	9.00
" 28	Paid 'X' against his account	18.00
" 30	Sent telegram to Bombay	24.00

(Solution on Page A–45

Purchases Book

This is also called Purchases Day Book, Purchases Journal, Bought Book, Bought Day Book or Invoice Book. It is used for recording only credit purchase of goods or merchandise in which the merchant deals. Cash purchases of goods are to be recorded in the Cash Book and not in the Purchase Book. Credit purchase of things other than goods, say stationery for office use and assets like Furniture, Machinery etc are not recorded in Purchases Book, but in Journal Proper. Entries in the Purchases Book are made from Invoices. Invoices is a business document or statement giving the details of goods purchased as to their quantity, quality, price, total value etc. Thus invoice is a source of Prime Entry for both buyer and seller. Ruling of Purchases Book is as follows:

Purchases Book

Date	Particulars	Inward Inv.No.	L.F.	Details Rs.	Amount Rs.

Date column: The date of credit purchases is entered in the date column.

Particulars column. This column is meant for recording the names of the suppliers of goods.

Inward Invoice Number column is meant for recording the serial number of each inward invoice. It is written to facilitate reference to the inward invoice.

Analytical Petty Cash Book

Cash received	Date	Particulars	Voucher No.	Total Payment	Postage Telegram	Analysis of Payments: Stationery	Cartage	Travelling	Office expenses	Ledger Account
	2006			Rs.						
300.00	Apr.1	To Cash								
	" 4	By Postage& Stamps		15.00	15.00					
	" 8	" Stationery		36.00		36.00				
	" 10	" Cartage		12.00			12.00			
	" 15	" Travelling (Taxi hire)		22.50					22.50	
	" 22	" Office expenses		33.00						33.00
	" 25	" Postage & Stamps		9.00	9.00					
	" 28	" X Account		18.00						18.0
	" 30	" Postage & Telegrams		24.00	24.00					
	" 30			169.50	48.00	36.00	12.00		22.50	33.00
		" Balance c/d		130.50						
300.00				300.00						
130.50	May1	To Balance b/d								
169.50	"	" Cash								

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Ledger folio column is meant for recording the page number of t ledger where the account of the supplier is opened. If more than one ite is purchased and trade discount is given, then it is entered in the Deta column. In the amount column the 'net amount' of the invoice is entere

Purchases book is closed periodically. At the end of the peri Purchases Book is totalled and postings are made.

Debit purchases Account with total as "To Sundries as per Purcha Book".

Credit each suppliers account with the amount of purchases ma from him as 'By Purchases Account'.

Illustration 5

Enter the following transactions in the Purchases Book of M/s Ar Electronics Ltd., for April 2006 and also carry out the postings.

Apr. 8 Purchased on credit from Vijay Electronics
5 Hatari TV Sets @ Rs. 2,500.
3 EC TV Sets @ Rs. 2,800
Trade Discount 10%.

Apr. 15 Purchased on credit from Buywell Traders.
5 Philips transistors @ Rs. 400
8 Bush Radios @ Rs. 500
Trade Discount 15%

Apr. 22 Purchased on cash from Deccan Electricals
10 Table Lamps @ Rs. 30

Apr. 20 Purchased on credit from Mohan Traders
5 Steel chairs @ Rs. 50
2 Office tables @ Rs. 150

Solution:

Purchases Book

Date	Particulars	L.F.	Details	Amoun
			Rs.	R
2006				
Apr.8	Vijay Electronics.			
	5 Hatari TV Sets @ Rs. 2,500		12,500	
	3 Ec TV Sets @ Rs. 2,800		8,400	
			20,900	
	Less trade Discount 10%		2,090	18,81
Apr. 15	Buywell Traders.			
	5 Philips Transistors @ Rs. 400		2,000	
	8 Bush Radios @ Rs. 500		4,000	
			6,000	
	Less Trade Discount 15%		900	5,10
	Total			23,91

Ledger

Vijay Electronics

Date	Particulars	L.F.	Amount	Date	Particulars	L.F.	Amount
			Rs.	1997			Rs.
				April 8	By Purchases A/c		18,810

Buywell Traders

				1997			
				Apr. 15	By Purchases A/c		5,100

Purchases Account

			Rs.				
1997 Apr. 30	To Sundries (as per Purchases Book)		23,910				

Purchases Returns Book

If the goods received are defective or damaged or not upto the sample shown the trader will return such goods to the supplier. These returns are called purchase returns; such returns to the supplier are entered in a separate book called Purchases Returns Book or Returns Outwards Book.

The book is ruled like Purchase Book and details are entered in the same way.

Like the Purchase Book the Returns outward Book is closed or totalled periodically and the entries therein are posted to the ledger as under:

a) Debit Suppliers Account to whom goods are returned as 'To Returns outward account' with individual amount.

b) Credit Purchases Returns Account with the periodical total as 'By Sundries'.

While returning goods it must be noted that any trade discount allowe in the original transaction must be taken into consideration and only net valu of goods returned must be recorded.

Debit Note:- A 'Debit Note' is a document, bill or statement sent to the perso to whom goods are returned or from whom an allowance is claimed.

This statement informs him that his account is debited to the exte

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of the value of goods returned or allowance claimed. It contains description and details of goods returned, name of the party to whom go are returned and net value of the goods so returned with reason for re or allowance claimed.

Sales Book

Sales Book or Sales Journal records only credit sale of goods in wh the businessman deals. Cash sale of goods and sales of property and as whether for cash or on credit are not recorded in the Sales Day Book. ruling and procedure for entering the transactions is similar to that purchases Book. In the particulars column the name of the credit purcha is entered and in the amount column only net amount of the invoice p (Invoice price less trade discount) should be recorded.

Sales Book is closed periodically and entries there from are pos to the ledger as under:

1) Debit customer's Account with the individual amount against his na as "To Sales account".
2) Credit Sales account with periodical total as 'By Sundries as per Sa Book'.

Illustration 6

From the following particulars write up Sales Book of An Furniture Works.

2006

Jan. 5 Sold on credit to Misra & Co.
10 Tables @ Rs. 75
50 Chairs @ Rs. 30

Jan. 18 Sold to Tiwari & Bros on credit
5 Almirahs @ Rs. 1000
50 Chairs @ Rs. 30
7 Tables @ Rs. 70

Jan. 22 Sold to Satyanarayan & Co for cash
25 tables @ Rs. 70
30 Chairs @ Rs. 28

Anand Furniture Works allow trade discount of 10%

Sales Book

Date	Particulars	L.F.	Details	Amou
2006			Rs.	R
Jan.5	Misra & Co.,			
	10 Table @ Rs. 75		750	
	50 Chairs @ Rs. 30		1,500	
			2,250	
	Less Trade Discount 10%		225	2,0

18	Tiwari Bros.			
	5 Almirahs @ Rs. 1,000		5,000	
	50 Chairs @ Rs. 30		1,500	
	5 Tables @ Rs. 70		350	
			6,850	
	Less Trade Discount 10%		685	6,165
	Total			8,190

Sales Returns Book

Whenever goods sold on credit are returned by customers, they are recorded in Sales Returns Book or Returns Inwards Book.

This Book is ruled just like the other day book and details are also entered in the same way.

In the particulars column the name of the customer who is returning the goods is entered and in amount column only net amount is entered like other day books, this book is also closed periodically and entries are posted to the ledger as under:

1) Debit Returns Inwards Account with the periodical total as "To Sundries".
2) Credit Customers Account with the individual amount as "By Returns Inwards Account".

Credit Note: When the seller receives back goods from the purchaser along with a 'Debit Note' the seller has to acknowedge the same by sending a 'Credit Note' conforming the acceptance of the debit note. In other words it is a statement sent by the seller to the purchaser after the receipt of goods returned by purchaser. We call it a Credit Note because the Customer's account is credited with the amount written therein.

Bills Receivable Book

Bills are of two types. Bills Receivable and Bills payable. These arise in settlement of accounts between creditors and debtors. A bill is an order given by a creditor to his debtor to pay a certain sum of money to or to the order of a specified person on a specified date.

Bills drawn by the trader and duly accepted by his debtors are called Bills Receivable. These are entered in a separate book called 'Bills Receivable Book'.

Bills Payable Book

This book is maintained to record all transactions relating to Bills payable i.e. bills drawn by the creditors and accepted by the trader in settlement of accounts.

As and when a bill is accepted by the trader, all the particulars of the bill are entered in the Bills Payable Book.

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The periodical total of this book is credited to Bills payable account in the ledger and the amount of each bill is debited to the individual account of the person who drew the bill.

Journal Proper

Journal Proper is used for recording only those transactions which cannot be recorded in any other subsidiary book. It is generally used for recording the following types of transactions.

(1) Opening entries (2) Rectifying entries (3) Transfer entries (4) Adjustment entries (5) Closing entries etc.

SHORT ANSWER QUESTIONS

1. Classify the following under personal, real and nominal accounts:
   1) Stock 2) Goodwill 3) Loan 4) Fixtures
   5) Bank Overdraft 6) Cash 7) Capital Rearrange
   8) Bank 9) Drawings
   10) P. Peters (Purchaser)

(B.Com. Osm.)

2. Journalise the following transactions in the books of Mahavir.
   i) Bought goods on credit from A for Rs. 400
   ii) Goods returned by B Rs.50
   iii) Paid carriage inwards Rs.100

(B.Com. Osm.)

3 Journalise the following transactions with narration.

1993		Rs.
April 1	Received cash from Swathi	40,000
5	Purchased goods from Saritha	15,000
8	Sold goods to Lalitha	25,000
10	Latitha returned goods	500
15	Bought furniture from Kavitha	10,000

3. Journalise the following transactions.
   i) Ram commenced business with Rs. 50,000
   ii) Deposited in Bank Rs. 40,000
   iii) Purchased Machinery, Payment made by cheque Rs. 20,000

   iv) Received committion from Sarat Rs. 400.
   v) Paid salary to Arun Rs. 300.

4. Journalise the following transactions in the books of Basu.
   a) Basu sold goods to Chowdhary for Rs. 750 against a cheque.
   b) Received as commission Rs. 400
   c) Bank paid Rs. 300 directly for Insurance Premium of Basu.
   d) Cash deposited into Bank Rs. 5,000.
   e) Withdrawn cash from Bank for personal expenses Rs. 850

(B.Com. Osm.)

5. Journalise the following transactions in the books of Bhagwan.
   i) Paid Interest of Rs. 500 to Sreedhar on loan taken from him.
   ii) Received Rs. 425 fromKiran whose account was written off as bad previously.

(B.Com. Osm.)

6. Pass the necessary journal entries for the following:
   a) A fire occured on 20th March 2006 and stock of Rs. 25,000 was destroyed. The Insurance company accepted a claim for Rs. 22,000.
   b) Wages Rs. 450 were paid for erection of plant.

(B.Com. Osm.)

7. Ramakant Trivedi had the following assets and liabilities on 1st April 2006 Cash in hand Rs. 800; Cash at Bank Rs. 15,600; Stock Rs. 15,000; Furniture & Fixtures Rs. 9,600; Plant and MachineryRs. 30,000; S. Debtors Rs. 8,000; S. Creditors Rs. 8,000; Bills Payable Rs. 5,000.
   Pass the necessary opening entry.

8. Post the following transactions to Building Account. (a) Building purchased for Cash Rs. 20,000 (b) Building purchased on account Rs. 30,000 (c) An old building sold for cash to Satish Rs. 5,000. There was a loss on sale Rs. 1,000 (d) New rooms added to building costing Rs. 20,000. (B.Com. Osm. Balance in Buildings Account Rs. 64,000)

9. If the capital is Rs. 1,50,000 and creditors Rs. 70,000 ascertain the total assets.

(Ans. Rs. 2,20,000)

10. If the owner's equityis Rs. 98,765 and total assets Rs. 9,98,877 what will be the total liabilities.

(B.Com. Osm.)
(Ans. Total liabilities Rs. 9,00,112)

11. Prepare a Purchases Book from the following transactions.
   2006 May 10–Bought of M/s Ramana, Singapore, 100 bags of Wheat at Rs. 50 per bag less 10%.

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2006 May 20-Bought of M/s. Ramlal, Calcutta 200 bags of Rice at Rs. 300 per bag less 10%.

12. Prepare the Purchases Book of M/s Fancy Dress Mart: **(B.Com. Osm.)**

June 2 Purchased from Gupta of Guntur:
100 T Shirts at Rs. 80 per Shirt
" 4 Sold to Burman of Bombay :
50 T Shirts at Rs. 120 per Shirt
" 6 Purchased from Vijay of Vijawada
100 Bush shirts at Rs. 90 each
" 8 Bought from Bombay Furniture Mart, Bandar
10 Chairs at Rs. 80 each

(B.Com. Osm. Total of Purchases Book Rs. 17,000)

13. Enter the following transactions in the Purchases Book of Premdas and also show the Purchases Account.

2006

Jan. 1 Purchased from Mohan on credit four reams of white paper at Rs. 65 per ream.
2 Purchased from Gopi 4 dozen ink bottles at Rs. 48 per dozen.
3 Purchased from Rao two dozen writing Pads at Rs. 96 per dozen.
4 Returned two defective pads to Rao.
5 Purchased from Kishore 3 dozen balls pens at Rs. 15 per dozen.

(B.Com. Kakatiya Total of Purchases Book Rs. 689)

14. Enter the following transactions in the purchases book of Vijay Electronics, Nallakunta, Hyderabad,

2006

Jan. 5 Purchased 5 sets of Dyanora 555 Model from Dyanora Ltd. @ Rs. 4,000. Trade Discount 15%
9 Purchased on credit from Bajaj & Co.
Electric Irons 20 @ Rs. 60
Table Lamps 6 @ Rs. 35
18 Purchased on cash from Sumeet Ltd.
Electric Irons 10 @ Rs. 55.
29 Purchased on credit from Chandrika Furnishers.
Show Case 1 @ Rs. 1,500
Office Table 1 @ Rs. 800
Office Chairs 6 @ Rs. 50

Hint: Transactions of 18th and 29th January will not be entered in Purchases Book.

15. From the following particulars write up Sales Book of Sri Sarma, a dealer in Furniture.

2006

June 6 Sold on credit to Krishna Murthy.
10 tables @ Rs. 60.
40 chairs @ Rs. 20.
June 16 Sold to Laxmi Enterprises.
5 Almirahs @ Rs. 1,200
20 Chairs @ Rs. 30
2 Dining Tables @ Rs. 600

Sri Sarma offers Trade Discount at the following rates.
Sales upto Rs. 2,000 – 5%
Sales beyond Rs. 2,000–10%

16. From the following transactions write up Sales Book and Ledger accounts of Kumar.

2006

Feb. 1 Sold goods to Birla Traders Rs. 14,000
4 Sold goods to Kamlesh & Sons Rs. 2,000
6 Mallik and Bro's bought from us Rs. 4,200
8 Sold on credit to Birla Traders Rs. 6,500
10 Cash received from Birla Traders Rs. 8,000
12 Goods sold to Little Roses Ltd. Rs. 5,600
14 Received cheque from Mallik & Bros. Rs. 1,000

(B.Com. Kakativa Total of Sales Book Rs. 32,300)

17. Maintain the Cash Book of Harish who deposits all receipts into the Bank and makes all payments through cheques:

Jan. 1 Started business by opening Bank Account with Rs. 1 Lakh.
2 Purchased furniture Rs. 12,000 cheque No. 001
3 Bought goods from Kareem Rs. 3,000 on credit
5 Sold goods for cash Rs. 5,000 to Aswin.
6 Paid Kareem Rs. 2,975 in full settlement, cheque No. 002
7 Abdullah sent an advance of Rs. 5,000 for goods to be supplied next week.

(B.Com. Osm. Bank Balance Rs. 95,025)

18. Write out an analytical Petty Cash Book from the following transactions.

2006

Aug. 1 Issued a cheque of Rs. 100 to Petty Cashier.
2 Paid electricity charges Rs. 3.25
4 Paid Telephone charges Rs. 2.50

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8 Paid for Printing Rs. 3.75
15 Paid for stationery Rs. 6
20 Purchased post cards Rs. 3
(B.Com. Osm. Balance Rs. 81.50)

19. The Petty Cashier who maintains an imprest of Rs. 500 submitted on 31st March 2006 the list of expenses as follows:
Travelling Expenses Rs. 52; Carriage Rs. 25
Postage Rs. 78; Stationery Rs. 87
Show the entries to be made by the Main Cashier.
(B.Com. Osm. Balance Rs. 258)

PROBLEMS

1. Journaiise the following transactions:

2006			Rs.
Jan.	2	Purchases goods for cash	5,000
	4	Sold goods for cash	8,000
	5	Purchased goods from Ajay.	2,000
	8	Sold goods to Deepak	3,000
	9	Cash paid to Ajay	1,600
	10	Received cash from Deepak	2,500
	13	Sold goods to Ram for cash	1,800
	14	Purchased goods from Gopal for Cash	1,200
	17	Paid rent	400
	19	Received Interest	200
	22	Received Commission	100
	24	Goods returned to Ajay	200
	25	Goods returned by Deepak	150
	29	Purchased Furniture from Usha & Co.,	1,500
	31	Paid Salary	1,800

2. Journalise the following transactions in the books of Ram for the month of April'2006 and prepare the necessary ledger accounts.

2006			Rs.
April	2	Ram commenced business with a capital of	50,000
	3	Deposited in Bank	40,000
	4	Purchased goods for cash	2,000
	6	Sold goods for cash	4,000
	7	Purchased Machinery, Payment made by cheque	10,000
	8	Sold goods to Hari & Co. for cash	3,000

			1,000
	9	Received from Ajay & Co. cash	900
	10	Purchased goods from Mohan	800
	12	Paid Mohan by cheque	100
	13	Received rent from sub-tenant.	500
	14	Paid salary to Sharma by cheque	125
	15	Received commission from Abhijeet	200
	16	Received interest from Purshottam	300
	18	Paid for advertising	100
	19	Purchased stationery for cash	500
	20	Purchased furniture, payment made by cheque	1,000
	21	Cash withdrawn from bank for office use	2,000
	22	Cash Sales	4,000
	23	Cash purchases	800
	24	Bought of Krishna goods on credit	15
	25	Paid for postage	900
	26	Cheque issued to Krishna	400
	27	Cash withdrawn from office for personal use	550
	28	Amount withdrawn from Bank for personal use	400
	29	Paid rent to landlord by cheque	
	30	Goods withdrawn from business for personal use worth	600

3. On 1st January 2006 Ram Murthy commenced business with a capital of Rs. 30,000 represented by cash in hand 500: Cash at Bank Rs. 5,200; Furniture & Fittings 3,000; Plant and Machinery Rs. 21,300.

His transactions for the month of January 2006 were as follows:

2006			Rs.
Jan.	2	Purchsed goods from Rajgopalan	5,000
	3	Sold goods to Vishwanadam	4,500
	4	Bought stationery for cash	150
	5	Received cash from Vishwanadam allowed discount	4,400
	7	Paid Rajagopalan by cheque and discount allowed by him	100
	9	Deposited in bank	4,900
	13	Purchased goods from Chinoy	100
	16	Sold goods to Mallikharjuna Rao	3,000
	20	Received Rs. 5,850 from Mallikharjuna Rao in settlement of the debt due from him	4,850
	22	Cash Sales	6,000
			8,000

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	24	Paid Rs. 4,800 to Chinoy in settlement of the debt due to him.	
	27	Purchased from Godrej Ltd. office desk on credit	1,600
	29	Took Loan from Kishore Karwankar	10,000
	30	Paid Salaries in cash	2,000
	31	Paid rent to landllord by cheque	1,200

Journalise these transactions and prepare necessary ledger accounts.

4. Enter the following transactions in Subsidiary books and post them in ledger.

2006			Rs.
Jan.	1	Bought goods from Deepak	1,200
	2	Sold goods to Anand	600
	3	Sold goods to Satish	800
	5	Bought goods from Shanker Rao	1,450
	7	Sold goods to Krishna Murthy for cash	875
	8	Goods returned by Satish	150
	9	Goods returned to Shankar Rao	75
	11	Purchased goods for cash	500
	13	Sold Goods to Anand	800
	16	Sold goods to Satish for cash	400
	17	Purchased Furniture from Vijay Traders	1,450
	18	Purchased stationery for cash	70
	20	Took Loan from Tiwari Bros at 9% p.a. and deposited the same in bank	6,000
	21	Paid for advertisement	150
	23	Payment made to Shanker Rao by cheque	1,000
	28	Drew cheque for personal use	800
	29	Drew from bank for office use	1,400
	31	Paid rent to landlord	350

5. Enter the following transactions of Abhishek in Single column Cash Book.

2006			Rs.
Jan.	1	Commenced business with	25,000
	2	Paid into bank	20,000
	4	Purchased goods for cash	1,200
	6	Sold goods for cash	2,000
	7	Paid for Stationery	75
	9	Received from Shashikanth	1,125

	13	Paid to Gopal	525
	15	Purchased Office Furniture	625
	17	Paid for Advertisement	400
	21	Received Cash from Prasad Rao	1,500
	23	Purchased goods from malhotra for cash	900
	27	Cash withdrawn for personal use	350
	29	Paid Salary to Office Staff	450
	30	Received Cash from Sandeep	2,200
	31	Paid rent to landlord	300

(Ans. Cash Balance Rs. 7,000)

6. Enter the following transactions in Cash Book with cash and discount columns and balance the same.

2006			Rs.
June	1	Balance of cash in hand	5,200
	3	Received cash from Mohan	2,200
	5	Paid Cash to Sohan	1,300
	8	Paid to Ramgopal (discount received Rs. 10)	290
	9	Purchased goods from Ashok for cash	500
	10	Paid Mukesh	300
	11	Received from Gupta (discount allowed Rs. 20)	980
	15	Cash Sales	500
	21	Paid to Mohanlal Tiwari (Discount Rs. 25)	725
	23	Paid Wages	150
	28	Received Commission from Uday	250
	29	Paid to Naresh (Discount Rs. 20)	380
	30	Received interest	200

(Ans. Cash Balance Rs. 5,685)

7. Enter the following transactions in a Three-Column Cash Book.

2006			Rs.
Jan.	1	Cash in hand	410
	1	Balance at Bank	8,920
	2	Cash Sales	4,500
	3	Paid into Bank	4,000
	5	Purchased stationery	100
	8	Paid Mahesh by cheque discount received	280
	12	Gave a cheque for cash purchases	20
	15	Drew for personal use	1,500
			500

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18	Received from Suresh, a cheque for Rs. 1,970 in full settlement of account for Rs. 2,000		
20	Drew from Bank		1,000
21	Paid Wages		100
25	Bank returns cheque of Suresh dishonoured		
31	Bank charges as per Pass Book		10

(B.Com. Osm.)

(Ans. Closing Cash Balance Rs. 1,710; Bank Balance Rs. 9,630)

8. Enter the following transactions in the three column cash book of Sunil and balance the same as on 31-12-2006

			Rs.
2006			
Jan.	1	Cash in hand	5,400
		Cash at bank	1,475
	2	Issued cheque to Sekhar	850
		discount received	150
	3	Paid salaries	1,150
	5	Cash received from sale of investments Rs. 4,900 out of which Rs. 1,250 was deposited into bank	
	6	Received from Vikram a cheque of Rs. 775 in settlement of his account for	950
	9	Received from Naidu Rs. 1,150 discount allowed	50
	10	Withdrew for personal use by cheque	175
	11	Bank charges as per pass book	10
	14	Interest received from Manohar	140
	16	Goods sold	7,000
	18	Bank collected dividends on shares	360
		Purchased from Wahed	2,400
	20	Paid rent	400

(B.Com. Kakatiya)

(Ans. Closing Cash in hand Rs. 13,390; Cash at Bank Rs. 2,825)

9. Enter the following transactions in a Cash Book.

2006		
Jan.	1	Cash in hand Rs. 5,374, Balance at bank Rs. 15,490
	3	Cash Sales Rs. 6,400
	5	Paid into bank Rs. 7,000
	6	Received a cheque for Rs. 700 from Satyam
	8	Paid into bank Satyam's cheque
	10	Paid to Anurag by cheque Rs. 980 and discount allowed by him Rs. 20

12	Cash purchases Rs. 2,500
14	Withdrew from bank for office use Rs. 5,000
15	Received cheque for Rs. 950 from Lakshman and allowed him discount Rs. 50
18	Cash Sales Rs. 7,500
19	Paid into bank Lakshman's cheque and Cash Rs. 4,000.
21	Cash paid for Stationery Rs. 120.
23	Paid Commission to Rakesh Rs. 500
25	Received cheque for Rs. 1,000 from Mohan and Paid the same into Bank.
27	Lakshman's cheque dishonoured.
29	Drew a cheque for Rs. 800 for personal use.
31	Paid Salaries by cheque Rs. 1,500 and by cash Rs. 500.
31	Bank charges Rs. 20 and Insurance premium Rs. 520 as shown in Pass Book.

(B.Com. Andhra, SKD; SV)

(Ans. Closing Cash Balance Rs. 9,654; Bank Balance Rs. 19,370)

10. Make out the three column Cash Book of M/s Ram and Mohan from the following particualrs.

			Rs.
2006			
April	1	Cash in hand	300
		Bank Overdraft	450
		Paid salaries for March	250
	2	Purchased goods for cash	30
		Cash Sales	80
	3	Issued cheque in favour of Krishna & Co. to settle his account for Rs. 270	260
	4	Received Cash from Dhawan X Co. (discount allowed Rs. 15)	235
	5	Received cheque from Ali Bros. (in full settlement of their debt of Rs. 200)	190
	5	Cash sent to bank	200
	5	Cheque issued in favour of Ravi Bros. for purchase of furniture	150
	6	Cheque of Ali Bros. dishonoured, Bank debits in respect of charges	2
	6	Paid rent by cheque	100
	6	Bank collects interest on securities	150

(B.Com. Nagarjuna)

(Ans. Cash in hand Rs. 135; Bank Overdraft Rs. 612)

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11. Anand owed Rs. 2800 to the Bank and had cash Rs. 460 on hand on 1-4-92.

April
- 2 he drew cash for office use Rs. 1,600; and paid wages Rs. 1000.
- 7 he sold goods for Rs. 400 and bought goods for Rs. 300
- 9 he received cheque for Rs. 1350, in full settlement for Rs. 1400 from Ajit. Deposited the same in Bank.
- 11 he paid Ramvilas by cheque Rs. 890, in full settlement for Rs. 900.
- 15 he received Rs. 215 for sale of old news papers.
- 17 he bought one bicycle by cheque for Rs. 1,150; he also paid municipal taxes Rs. 200 in cash
- 18 he received back Ajit's cheque dishonoured from Bank. Bank charged Rs. 10 towards the same.
- 20 he received from Ajit a fresh cheque for the total amount. (Including bank charges)
- 21 he deposited Ajit's cheque into Bank.

Prepare his Three Columnar Cash Book.

(B.Com. Osm.)

(Ans. Closing Cash in hand Rs. 1,175; Bank overdraft Rs. 5,040)

12. Mr. Rokadiya maintains cash book with bank columns. Enter the followign transactions of 21 May 2006 in the Cash Bok and balance the same:

(i) Balance at the beginning of the day :

Cash	Rs.	150
State Bank of India	Rs.	25,000
Bank of India (overdraft)	Rs.	3,000

(ii) Received a cheque of Rs. 5,350 from Merwan Bros, in full settlement of invoice for Rs. 5,500. The cheque was deposited in Bank of India, who charged Rs. 3 as collection charges.

(iii) Cash purchases Rs. 10,000, Paid bearer cheque on State Bank of India.

(iv) Transferred Rs. 5,000 from State Bank of India to Bank of India.

(v) Withdrew Rs. 5,000 from State Bank of India Rs. 3,000 for office use and Rs. 2,000 for personal use.

(vi) Paid advance salary to manager Rs. 1,000 by bearer cheuqe on Bank of India.

(CAIIB)

(Ans. Closing Cash Balnace Rs. 3,150; Balance at State Bank of India Rs. 5,000; Bank of India Rs. 6,347)

13. Prepare a Cash Book with Bank and Discount columns from the

following transactions; assume that all receipts are deposited in bank and all payments are made by cheques.

			Rs.
2006			
Jan.	1	Opened Bank Account with	25,000
	3	Made Cash Purchases	800
	5	Sold goods for cash	600
	7	Received cheque from Amarnath allowed him discount	875
	9	Paid Chandulal on account and was allowed discount	25
	10	Purchased furniture for Cash	485
	12	Drew Cheque for petty cash	15
	14	Received interest on investments	800
	16	Paid Dharam Veer in full settlement and was allowed discount	100
	19	Paid for advertisement	750
	22	Received from Allauddin allowed him discount	480
	28	Paid salaries	20
	31	Paid rent to Landlord	350
			990
			20
			1,200
			420

(Ans. Bank Balnace Rs. 23,580)

14. Write out an analytical Petty Cash Book, maintained on imprest system, from the following transactions:

			Rs.
2006			
Jan.	1	Issued a cheque of Rs. 100 to the petty cashier	
	2	Paid electricity expenses	3.25
	4	Paid Trunk call charges	2.50
	5	Paid for refreshments	5.00
	6	Paid for Cartage	1.25
	8	Paid for Printing	3.75
	10	Purchased typing papers and ribbon	4.50
	15	Paid for stationery	6.00
	18	Paid Railway Freight	5.50
	20	Purchased post cards and Inland letters	3.00
	25	Paid for rickshaw charges	12.00
	27	Paid taxi hire to the sales manager	20.00
	28	Tea and tip to peon	1.50
	31	Paid Krishna against his account	15.00

(Ans. Cash reimbursed on Feb. 1, Rs. 83.25)

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CHAPTER -2

Bank Reconciliation Statement

A businessman who opens a current Account with a bank records his transactions with the bank either in Bank Account opened in the ledger or in the Bank Column of the Columnar Cash Book. The term 'Cash Book' used in this chapter means 'Bank Account' in the books of the businessman. The deposits in the Bank are entered on the debit side and payments from Bank are entered on the credit side.

At the time of opening the Bank Account, the Bank will give him a book called 'Pass Book'. The customer is expected to bring the Pass Book periodically to the Bank and get it up to date. The bank may make entries in the Pass Book or issue periodically a statement called "Bank Statement". The Bank Pass Book or Bank Statement contains a copy of the customer's bank account maintained by the Bank in its books. It shows all the transactions of the customer with the bank during a particular period. Entries in the Pass Book are made by the Bank staff. The credit side of the Pass Book indicates the amount deposited in the bank and the debit side shows the amount withdrawn from the bank.

When deposits are more than withdrawls it is called Favourable Balance. In case of Favourable Balance, the Cash Book shows the debit balance, the pass book credit Balance. When withdrawls are more than deposits then there is a Bank Overdraft. In case of overdraft the cash book shows credit balance and Pass Book debit balance.

The Bank Balance as shown by the Cash Book of a merchant should generally be the same as shown by the Bank pass book on any particular date. But in actual practice, these two balances maynot be same as on a particular date. A statement known as 'Bank Reconciliation Statement' is prepared periodically for reconciling the balances shown by the two sets of books. Bank Reconciliation may be defined as a 'Statement prepared to reconcile the difference between the bank balances shown by the Cash Book and Pass Book.

The Bank Reconciliation statement is prepared by the customer and not by the Bank. It is prepared periodically, usually, at the end of every month. It enables the customer to check the accuracy of the entries made in cash book and pass book. It helps the customer to keep a track of cheques sent to bank for collection but not cleared and cheque issued but not presented for payment for unreasonably long period.

Causes for the difference between cash book Balance and Pass Book Balance.

The items which cause the difference between the two balances are: (1) entries have been made in cash book, but not in the pass book (2) entries have been made in pass book, but not in cash book. If as on a particular date entries have been made both in cash book and pass book or not made in any of the books then there will not any difference in the balances shown by the two books.

The causes for the difference in the balance shown cash book and pass book are discussed below.

1. **Cheques issued, but not presented for payment :**

Whenever cheques are issued by the trader for making payments, he immediately credits the Cach Book. The bank makes the entry in its books only when these cheques are presented for payment and actual payment is made. If Cash Book balance and pass book balances are compared in the mean time, they will not agree with each other.

In case of *Favourable Balance* the Cash Book Balance will be less and Pass Book balance will be more. In case of Bank Overdraft, the Cash Book overdraft will be more and Pass Book Overdraft will be less.

2. **Cheques deposited but not yet collected by the bank:**

Whenever cheques, drafts etc. are deposited in the bank for collection, the trader debits the Bank Account immediately. The Bank will not credit the customer's account until they are actually collected. If in the meantime comparison is made, the two balances will differ.

In case of **Favourable Balance,** the Cash Book balance will be more and Pass Book balance will be less. In case of **Bank Overdraft** the Cash Book Overdraft will be less and Pass Book Overdraft will be more.

3. **Interest on investments, dividends, interest on deposits etc. credited in Pass Book, but not entered in Cash Book.**

As per the standing instructions of the trader the bank may collect interest on government securities, dividends on shares and credit the pass book of the trader. In certain cases, the bank may credit the trader's account with interest on the deposits made by him in the bank. The corresponding entry in the Cash Book is not made till he receives the information. Until such time, the two balances will not be same.

In case of **Favourable Balance** the Cash Book balance will be less and the Pass Book balance will be more. In case of **Bank Overdraft** the

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Cash Book Overdraft will be more and Pass Book Overdraft will be less.

4. Bank charges, interest on overdrafts, insurance Premium etc (paid by bank under standing instructions) debited in Pass Book, but not adjusted in Cash Book.

According to the standing instructions of the trader the bank may pay insurance premium, club subscriptions etc. For the services rendered by it to the customers, the bank may charge some fees called 'Bank Charges'. On the overdraft taken by the trader the bank charges interest. In all these cases, the bank debits the customer's account in its books. The trader does not pass any entry in his books till he receives the necessary intimation from the bank. This causes difference.

In case of **Favourable Balance** the Cash Book balance will be more and Pass Book balance will be less. In case of **Bank Overdraft**. The Cash Book Overdraft will be less and Pass Book Overdraft will be more.

5. Amount directly deposited by the customers of the trader in his bank account.

Some customers deposit money direct into bank account of the trader. The bank credits the pass book with the amount of deposit. The corresponding entry in the Cash Book will be made only after receiving the Pass Book. Due to this, the Cash Book and Pass Book balances will differ.

In case of **Favourable Balance,** the Cash Book balance will be less and Pass Book balance will be more. In case of **Bank Overdraft** the Cash Book Overdraft will be more and Pass Book Overdraft will be less.

6. Cheques deposited but not entered in Cash Book.

Whenever cheques are received from customers they are first debited in Cash Book and then sent to the bank for collection. But sometimes due to oversight the same may be sent to the bank without entering in the Cash Book. The bank may collect the cheques and credit the trader's account. In such a case the two balances will differ.

In case of **Favourable Balance,** the Cash Book balance will be less and Pass Book balance will be more. In case of **Bank Overdraft** the Cash Book Overdraft will be more and Pass Book Overdraft will be less.

7. Cheques debited in Cash Book but omitted to be sent to bank

Cheques received from customers are entered in Cash Book and immediately sent to the bank for collection. Sometimes after making the entry in Cash Book, the trader may forget to send the same to the bank.

In such a case the entry is made in Cash Book, but there can be no entry in Pass Book.

In case of **Favourable Balance** the bank balance as per Cash Book will be more and Pass Book balance will be Less. In case of **Bank overdraft** the Cash Book Overdraft will the less ans Pass Book Overdraft will be more.

8. Errors in Cash Book or Pass Book.

Points to be noted while preparing Bank Reconciliation statement.

1. Bank Reconciliation statement is always prepared as on a particular date. It is never for as month or year.
2. It is a statement and not an account.
3. The term 'Bank Balance' means favourable balance, unless otherwise stated. In case of Favourable Balance, the Cash Book shows debit balance and Pass Book credit balance. In case of unfavourable or overdraft the Cash Book shows credit balance and Pass Book debit balance.
4. In the problems, either the balance as per Cash Book is given and the balance as per Pass Book is to be ascertained or the balance as per Pass Book is given and Cash Book balance is to be ascertained. The balance which is given in the problem is to be taken as starting point. Additions or deductions are to be made in that balance only to arrive at the other balance. See the effect of each item on the two balances. If balance which is given is less and the balance to be arrived at is more then add; but if the balance which is given is more and the balance to be arrived at is less, then deduct.
5. When extracts of Cash Book and Pass Book are given in the problem, then see wether the two books relate to the same period or different periods. If the books are for different periods then common items should be considered and if it is for same period then common items should be ignored.

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Treatment of Special Items:

1. Credit side of the Cash Book Bank Column Cast short by Rs. 2000

Given overraft as per Cash Book.

In Treatment Bank Column of the Cash Book payments are recorded on the credit side. If the credit side is cast short it. Means that payments are shown less by Rs. 2,000. hence overdraft as per cash book will be less by Rs. 2000. To arrive at the Pass Book Overdraft Rs. 2,000 should be added.

2. Receipt side of the cash book was over cast by Rs. 500

Given: Overdraft as per Pass Book.

Treatment

When receipt side of bank column of the Cash Book is overcast, deposits are shown more and as a consequence overdraft as per Cash Book will be less and overdraft as per Pass Book will be more. We are given overdraft as per Pass Book, to arrive at the balance as per cash book Rs. 500 should be deducted.

3. A credit balance of Rs. 2,500 in cash book was brought forward on the next day as debit balance of Rs. 2,500

Given overdraft as per Pass Book.

Treatment

In case of favourable balance cash book will show debit balance and in case of overdraft Cash Book will show credit balance. Credit balance of Rs. 2,500 is brought forward as debit balance of R. 2,500 means that overdraft is carried forward to the next day as favourable balance. Because of this error, the Cash Book overdraft will be less by Rs. 5,000. The overdraft as per Pass Book is given. To arrive at the overdraft as per Cash Book Rs. 5,000 should be deducted.

4. A bill receivable for Rs. 2,000 discounted with bank is dishonoured on the due date and wrongly credited in Pass Book.

Given Overdraft as per Pass Book.

Treatment: Bill Receivable discounted and dishonoured on the due date should have been debited in Pass Book. But it has been credited. Hence the overdraft as per Pass Book is less by double the amount i.e. Rs. 4,000. It is assumed that the correct entry is made in cash book. We re given overdraft as per Pass Book (which is less by Rs.4,000) To arrive at the overdraft as per cash book Rs. 4000 should be added.

5. A cheque for Rs. 2,500 received from Dubey was entered twice in Cash Book, but the cheque was not collected and credited by bank till the day of preparation of Reconciliation statement.

Given Overdraft as per Pass Book.

Treatment:

Cheque received from Dubey Rs. 2,500 was entered twice in cash book, hence overdraft as per Cash Book is reduced by Rs. 5,000. But the cheque is not collected and credited in Pass Book. Hence Overdraft as per Pass Book will be more by Rs. 5000. To arrive at overdraft as per Cash Book Rs. 5000 should be deducted.

6. Cheque of Rs. 3,000 issued to Rajesh was wrongly entered twice on the debit side of the cash book.

Given Bank Balance as per Cash Book.

Treatment:

Cheques issued should be entered on the credit side of Cash Book. This will reduce the Cash Book balance. But, in this case, it has been debited twice. Instead of crediting Cash Book with Rs. 3,000., it has been debited with Rs. 6,000. As a result of this Cash Book balance will be more by Rs. 9,000. We are given Balance as per Cash Book. To arrive at the balance as per per Pass Book Rs. 9,000 should be deducted.

7. An amount of Rs. 750 paid in cash, towards salary was wrongly posted to the salary account as Rs. 1,750.

Given Bank Balance as per Pass Book.

Treatment:

Salary Paid in cash, Rs 750 wrongly debited in Salaries Account as Rs. 1,750 will not have any effect on bank balance both in cash book and pass book. Hence it is not to be considered while preparing Bank Reconciliation Statement.

8. A cheque of Rs. 1000 credited in Pass Book on 28th March being dishonoured is debited again on 1st April. There was no entry in the cash book about the dishonour until 10th April. Reconciliation Statement is prepared on 31st March.

Given overdraft as per Pass Book.

Treatment

Whenever cheques are deposited in bank for collection the entry in cash book is made immediately at the time of deposit. Bank may also credit the account in anticipation of collection. In this case, credit is given in Pass Book also. If the credit is also given in Pass Book, then the Bank Balance as per both Cash Book and Pass Book will be the same. If the cheque deposited in bank is dishonoured on the due date, necessary entries are made both in Cash Book and Pass Book. In this case the entry for dishonour is made both in Cash Book and Pass Book after the date of Preparation of Reconcilialion Statement. On the date of preparation reconciliation state-

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ment the Balance both as per Cash Book and Pass Book is same. So this item will not appear in Bank Reconciliation Statement.

9. A cheque of Rs. 1,600 deposited directly by the customer in the bank on 20th March, was dishonoured on 30th March. The necessary entry is made in the Pass Book on the same date. Reconciliation statement is prepared on 31 March,

Given Bank Balance as per Cash Book.

Treatment

When cheque directly deposited in bank and dishonoured, the entries for both deposit and dishonour have been made in the bank Pass Book and there is no change in bank balance as per Pass Book. As the cheque is directly deposited in bank and later dishonoured, there is no entry in cash book for both deposit and dishnour. As a result of this, the bank balance both as per cash book and pass book will be the same. Hence, this item will not be considered in the Bank Reconciliation Statement.

10. Two cheques of Rs. 6,000 and Rs. 8,000 deposited in Bank Account No.1 (and entered in Bank Account II Column) have been dishnoured. The entries for dishonour have been made in Bank Account No.II.

Given Cash Book Balance of Bank Account No. I & No.II.

Treatment:

Cheques of Rs. 6,000 and Rs. 8,000 deposited in Bank Account No. 1 have been entered in Bank Account No. II. The entry for dishonour is also made in Bank Account No. II. Hence, there is no change in Bank Balance of Account No.II. These cheques were deposited in Account No.1, but have been dishonoured. In bank Account I there is no entry for deposit and also for dishonour. So there is no change in Bank Balance of Account No. I either as per Cash Book or Pass Book. Hence, this item will not enter into reconciliation statements of Bank Account No. I and No.II.

Illustration 1

From the following particulars prepare a Bank Reconciliation Statement of Sri P. Das as at 31st Mach 2001.

	Rs.
a) Balance as per Cash Book	12,500
b) Cheques issued but presented after 31-3- 2006	3,000
c) Cheques deposited during the month but credited in April 2001	2,000
d) Cheques entered in Cash Book but omitted to be sent to Bank	1,500

e) Cheques received and sent to Bank without recording in Cash Book	1,000
f) Bank charges debited in Pass Book, not entered in Cash Book	100
g) Bank credited for interest, not entred in Cash Book	350
h) Dividend collected by Bank and credited in Pass Book, but not debited in Cash Book	750
i) Bank paid insurance premium, not entered in Cash Book	400
j) A cheque received from Mr. khan was dishonoured but not recorded in Cash Book	900
k) As per instruction, Bank met a pay order and debited in Pass Book, but not entered in Cash Book	300

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Solution:

Bank Reconciliation Statement As at 31st March 2006

		Rs.	Rs.
Bank Balance as per Cash Book			12,500
Add.	Cheques issued, but not presented for payment	3000	
"	Cheques received deposited in bank without recording in Cash Book	1000	
"	Interest credited in Pass Book but not entered in Cash Book	350	
"	Dividend collected and credited in Pass Book, not entered in Cash Book	750	5,100
			17,600
Less	Cheques deposited but not credited in Pass Book	2000	
"	Cheques entered in Cash Book, but Omitted to be sent to Bank	1,500	
"	Bank charges debited in Pass Book but not entered in Cash Book	100	
"	Insurance Premium paid by bank but not entered in Cash Book	400	
"	Cheque received dishonoured, not recorded in Cash Book	900	
"	Pay order paid by bank, not entered in Cash Book	300	
			5,200
Bank Balance as per Pass Book			12,400

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Illustration 2

On 31st December, 2005 the Cash Book of Satish showed an overdraft of Rs. 28,000, this did not agree with the balance as shown by the Bank Pass Book. It is ascertained that:

1) He paid into the bank on 26th December, four cheques of Rs. 12,000, Rs. 14,000, Rs. 8,000 and Rs. 9,000, of these the cheque of Rs. 8,000 was credited in January, 2006
2) He issued on 23rd December, 2006 cheques for Rs. 38,000. Out of these, cheques for Rs. 30,000 had been presented. Included in the cheques issued on 23rd December, was a crossed a cheque for Rs. 1,000 which was returned for conversion on 24th December and the conversion was done on 27th December, 92. The other cheques were not presented till 31st December, 1992.
3) The bank had debited Satish's account with Rs. 500 for interest and credited his account with Rs. 800 for interest on investents collected by it.
4) The total of a page on the debit side of Cash Book, Rs. 5,430 was carried to the next page as Rs. 4,530. It was also found that the total of one page on the payments side of Cash Book was Rs. 6,457 but it was written on the next page as Rs. 7,654. Prepare Bank Reconciliation Statement.

Solution:

Bank Reconciliation Statement as on 31st December, 2006

	Rs.	Rs.
Overdraft as per Cash Book		28,000
Add Cheques deposited but not yet credited in the Pass Book	8,000	
" Interest on overdraft debited in Pass Book	500	8,500
		36,500
Less Cheques issued but not presented for payment in bank	7,000	
" Interest on investments credited in pass Book	800	
" Short carry forward of a total of the debit side of Cash Book	900	
" Excess carry forward of a total of the credit side of Cash Book	1,197	9,897
Overdraft as per Pass Book		26,603

Illustration 3

Prepare a Bank Reconciliation Statement as on 30th September 2006 from the following extracts from the Bank Pass Book and the Cash Book (Bank Columns):

Bank Pass Book

Date	Particulars	withdrawls Rs.	Deposits Rs.	Dr. or Cr.	Balance Rs.
2006					
Sep 1	By Balance b/d			Cr.	9,810
3	To Mahesh Chander	740		Cr.	9,070
7	To Balwant	580		Cr.	8,490
8	By Salaria & Co.		200	Cr.	8,690
12	By Cash		1,000	Cr.	9,690
18	By Santosh Arora		500	Cr.	10,190
21	To Rameswar Vohra	440		Cr.	9,750
26	To Insurance premium	400		Cr.	9,350
30	To Bank Charges	20		Cr.	9,330
30	To Cash	3,000		Cr.	6,330
30	By Interest		70	Cr.	6,400
30	By Interest on investment		600	Cr.	7,000

Cash Book (Bank Columns Only)

Date 2006	Particulars	Amount Rs.	Date 2006	Particulars	Amount Rs.
Sep 1	To Balance b/d	9,810	Sep 2	By Mahesh Chander	740
6	To S.P. Roy	300	6	By Balawant Garg	580
10	To Salaria & Co.	200	11	By Jagan Nath	470
12	To Cash	1,000	15	By Ashok Goud	350
14	To Santosh Arora	500	18	By Rameshwar Vohra	440
19	To Baljeet Grewal	460	24	By Ashok Kamal	630
26	To Bharat Singh	780	30	By Cash	3,000
			30	By Balance c/d	6,840
Oct. 1	To Balance b/d	13,050			13,050
		6,840			

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Solution:

Bank Reconciliation Statement As on 30th Sept. 1999

	Rs.	Rs.
Bank Balance as per Cash Book		6,840
Add. Cheques issued but not presented for payment		
i) Jagan Nath	470	
ii) Ashok Sood	350	
iii) Ashok Kamal	630	
	1450	
" Interest Credited in Pass Book	70	
" Interest on Investments credited in P.B.	600	2,120
		8,960
Less Cheques deposited but not credited in Pass Book		
i) S.P. Roy	300	
ii) Baljeet Grewal	460	
iii) Bharat Singh	780	
	1540	
" Insurance Premium debited in P.B.	400	
" Bank charges debited in P.B.	20	1960
Bank Balance as per Pass Book		7,000

Illustration 4

On 31st December 2004 the Bank Account of Satish, according to the bank column of the Cash Book was overdrawn to the extent of Rs. 3500. An examination of the Cash Book and Bank Statement reveals the following:

1) A cheque of Rs. 1200 deposited on 29th December 2004 was credited by the bank on 4th January, 2005.

2) A payment by cheque for Rs. 250 to Ram had been entered twice in the Cash Book.

3) On 28th December, 2004, the bank credited an amount of Rs. 2600, received from a customer of Satish, but the advice was not received by Satish until 3rd January, 2005.

4) Bank charges amounted to Rs. 60 had not been entered in the Cash Book.

5) On 25th December, 2004 the bank credited Rs. 2500 to Satish in error.

6) A bill of exchange for Rs. 1200 was discounted by Satish with his bank. The bill was dishonoured on 29th December 2004 but no entry had

been made in the books of Satish.

7) Cheques issued upto 31st December 2005 but not presented for payment upto the date totalled Rs. 4,500.

You are required to prepare 1) Amended Cash Book to arrive at the correct balance on 31st December 2005 and (2) to Prepare a Bank Reconciliation Statement as on that date.

Solution:

Cash Book

	Rs.		Rs.
2006 Dec 31 To Ram (double posting cancelled)	250	2006 Dec.31 By Balance b/d	3,500
" " Customer (direct deposit)	2,600	" " Bank charges	60
" " Balance c/d	1,910	" " Customer (B/R dishonoured)	1,200
	4,760		4,760

Bank Reconciliation Statement
As on 31st December, 2005

		Rs.
Bank Overdraft as per Cash Book		1,910
Add Cheques deposited but not collected and credited in Pass Book		1,200
		3,110
Less Cheques issued but not presented for payment	4,500	
" Wrong credit given by Bank	2,500	
Bank Balance (Favourable) as Per Pass Book		7,000
		3,890

Short Answer Questions

1. Ascertain Bank Balance as per Cash Book

		Rs.
(a)	Bank Balance as per Pass Book	5,555
(b)	Cheques issed but not presented for payment	444
(c)	Cheques deposited but not credited in Pass Book	333
(d)	Bank charges debited only in Pass Book	11
(e)	Interest on investments credited in Pass Book	222

(Ans. Bank Balance as per Cash Book Rs. 5,233)

2. Find out the Bank Balance as per Pass Book

		Rs.
(i)	Bank Balance as per cash book	8,888
(ii)	Dividends collected and credited in	

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Pass book but not entered in cash book 777

(iii) Subscriptions to Chambers of Commerce
Paid by bank, debited in pass book 55

(iv) Wrong debit given in pass book, not yet adjusted 666

(Ans. Bank balance as Per Pass Book Rs. 8,944)

3. Prepare a Bank Reconciliation Statement from the following particulars :

(i) Bank balance (credit) as per Cash Book on 31st December, 2006 Rs. 10,000.

(ii) A cheque for Rs. 500 received from a customer was entered in the Bank column of the Cash Book in December, 2006 but the same was omitted to be paid into Bank.

(iii) A wrong debit of Rs. 200 appears in the Pass Book.

(Ans. Rs. 10,700)

4. Fromthe following particulars prepare a statement showing how the difference between the Cash Book balance and Pass Book balance is reconciled :

	Rs.
Balance as per Pass Book (Credit)	3,600
Balance as per Cash Book (Credit)	10,275
Unpresented Cheques	15,400
Uncredited Cheques	1,600

In addition you ascertain that :-

(a) A Cheque for Rs. 250 paid to Sharma has been wrongly credited in cash column.

(b) Debit side of the Cash Book (Bank Column) has been undercast by Rs. 400.

(c) Bank Charges Rs. 75 has not been entered in the Cash Book.

5. On the basis of the following information ascertain the Bank balance as per pass book No. 1.

(1) Bank Overdraft as per cash book No. 1 Account Rs. 4,500.

(2) Rs. 2,000 paid in No. 1 account stands wrongly credited in pass book No. 2 Account.

(3) A Payment of Rs. 200 from Account No. 2 has been wrongly debited by bankers in account No. 1.

(Ans. Bank Overdraft as per pass book No. 1 Rs. 6,700)

6. Prepare an amended cash book from the following particulars.

(i) Bank Overdraft as per cash book on 31st December 2006 was Rs. 5,800

(ii) The payments side of the cash book has been undercast by Rs. 500.

(iii) A dividend of Rs. 550 paid direct to the bank had not been

recorded in the cash book.

(iv) Cheques worth Rs. 2,000 entered in cash book as paid into bank had not yet been collected by the bank.

(v) Bank charges and interest Rs. 100 debited in the pass book on 28th December 2006 had not been entered in the cash book.

(vi) A Cheque of Rs. 800 paid into Bank had been dishonoured and shown as such by the bank, but no entry of the dishonour had been made in the cash book.

(Ans. Amended cash book overdraft Rs. 6,650)

PROBLEMS

1. From the following particulars prepare Bank Reconciliation Statement as at 31st December 2006

(a) Bank Balance as per Cash Book on 31st December 2006 was Rs. 15,000.

(b) Cheques issued but not cashed prior to 31st December 2006 amounted to Rs.2,000.

(c) Cheques paid into bank, but not cleared and crdited before 31st December 2006 were for Rs. 2,800.

(d) A cheque for Rs. 1,200 which was received from a customer was entered in the Bank column of the cash book in December 2006 but the same was paid into Bank in January 2007

(e) Interest on investments collected by the bankers and credited in the pass book, but not recorded in cash book Rs. 800.

(f) Bank charges Rs. 20 debited in pass book but not entered in cash book.

(Ans. Bank balance as Per pass book Rs. 13,780)

2. On 31st March 2006 the pass book of a merchant showed a credit balance of Rs. 25,000. Cheques amounting toRs. 5,000 were deposited in the bank but only cheques of Rs. 2,000 were cleared upto 31st March. Cheques amounting to Rs. 7,500 were issued, but cheques for Rs. 2,400 had not been presented for payment in the bank upto 31st March. In the pass book there was a credit of Rs. 150 for Interest on Investments and debit of Rs.20 for bank charges. Prepare a Reconciliation Statement showing the balance as per cash book.

(Ans. Bank balance as per cash book Rs. 25,470)

3. On 31st March 2006 the bank balance of Dinesh Agnihotri appeared at Rs. 7,654 as per the bank columns of the cash book. On reconcilling with the pass book, the following facts were ascertained :

(a) That out of the cheques for Rs. 1,800 issued by him on 26th March, cheques worth Rs. 400 were presented to the bankers before 31st March and those worth Rs. 500 were presented on 11th April. The other cheques were not so far cashed.

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(b) That a Bill Receivable for Rs. 1,000 was realised by the bankers on 29th March, but no corresponding entry was passed in the cash book.

(c) That out of the up country cheques for Rs.2,800 paid in on 28th March, one cheque for Rs. 900 was not yet credited by the bankers.

(d) That debit in respect of the bank charges amounting to Rs.92.50 and credits in respect of interest on investment for Rs. 150 and dividends realised Rs. 800 were not passed through the cash book.

(e) That a wrong debit of Rs. 350 relating to some other account appeared in pass book.

You are required to ascertain the bank balance shown by the bank pass book on 31st March 2006.

(Ans. Bank balance as per pass book Rs. 9,661.50)

4. Ascertain the correct bank balance of Mr. Ranjit as on 31-12-06 from the statement prepared to reconcile the balances as per cash book and pass Book.

(a) Balance as per Cash Book Rs. 2,980 and as per Pass Book Rs. 6,830.

(b) Cheques sent to bank for collection amounted to Rs. 5,000 out of which only cheques worth Rs. 3,800 were collected.

(c) Cheques issued were Rs. 4,600 out of which only cheques for Rs. 3,900 were presented for payment.

(d) A customer of Ranjit remitted directly into his bank account an amount of Rs. 5,000.

(e) Rs. 150 being the interest on temporary overdraft is recorded in the Pass Book only.

(f) A bill of exchange for Rs. 2,500 which was discounted with the bank previously is now dishonoured.

(g) Rs. 400 being the interest on fixed deposit is recorded in the Pass Book only.

(h) Cash paid to a creditor Rs. 1,000 erroneously entered in the Bank column of the Cash Book

(i) A cheque for Rs. 600 was issued and again cancelled only the issue was recorded and cancellation was not recorded.

(B.Com. Nagarjuna & Sri Venkateswara)

5. Prepare a Bank Reconciliation Statement from the following on 31 Jan. 2006

(i) Bank Balance as per Cash Book Rs. 16,500.

(ii) Cheques amounting to Rs. 4,000 were issued on 28th Jan out of which cheques amounting to Rs. 2,400 were presented for payment in Feb. 2006

(iii) Cheques amounting to Rs. 9,000 were deposited for collection but cheques for Rs. 3,000 have not yet been collected by the bank.

(iv) A wrong debit of Rs. 400 appears in the Pass Book.

(v) Bank Charges Rs. 10 were entered twice in the Cash Book by oversight.

(vi) A cheque issued to a supplier for Rs.700 was not entered in the Cash Book.

(vii) Interest on investments collected by the bank Rs. 1,000 was not entered in the Cash Book.

(viii) Cheque of Rs. 1,250 issued to Khanna was wrongly entered twice on the debit side of the Cash Book.

(ix) Pass Book showed a debit of Rs. 175 insurance premium and a credit of Rs. 35 as interest for which no entries were found in the Cash Book.

(B.Com. Kakatiya)

(Ans. Bank Balance as per Pass Book Rs. 11,920

6. From the following particulars you are required to ascertain the bank balance as would appear in the cash book of Atma Ram & Co. as at 31st December 2006

(a) The bank pass book showed an Overdraft of Rs. 6,500 on 31st December 2006

(b) Interest on Overdraft for six months ending 31st December 2006 Rs. 250 is debited in the pass book, but it is not entered in the cash book.

(c) Bank charges for the above period also debited in the pass book amount to Rs. 25.

() Cheques issued, but not cashed prior to 31st December 2006 amounted to Rs. 1,500.

(e) Cheques paid into bank, but not cleared and credited before 31st Dec. 2006 were for Rs. 2,500.

(f) Interest on investments collected by the bank and credited in the pass book amounted to Rs. 1,800.

(Ans. Bank overdraft as per cash book Rs. 7,025)

7. On 31st October 2006 a merchant has an overdraft of Rs. 5,000 as shown by the bank column of his cash book. It is however discovered that the cheques of Rs. 500 deposited into bank remain uncredited in the pass book upto this date. So also cheques of Rs. 1,350 are as yet unpaid. Further the pass book is debited with Rs. 10 for bank charges, Rs. 50 for Interest on overdraft, and Rs.250 for insurance premium as per merchant's instructions; and credited with Rs. 2,000 directly deposited by a customer of the merchant. But none of these items as yet appear in the cash book. Prepare the bank reconciliation statement so as to show the pass book balance as at 31st October 2006

(Ans. Overdr

(B

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8. On 31st March 2006 a trader compared his pass book with his Cash book and found that all items agreed except the following:

(a) Cheques drawn and entered in the cash book, totalling Rs. 6,345/- have not been presented for payment at the bank.

(b) An out-station cheque for Rs. 350 deposited into bank on 30th March, does not appear in the pass book.

(c) The pass book showed Rs. 142 as interest on overdraft which is not entered in the cash book.

(d) The trader has discounted with bank, in March, a bill of exchange for Rs.2,400 and had entered this amount in his cash book, but the proceeds credited, as shown by the pass book amounted to Rs. 2,387.40.

The trader's cash book shows a bank Overdraft of Rs. 4,397.50 on 31st March 2006 Prepare a bank reconciliation statement showing the balance as per pass book.

(Ans. Favourable balance as per pass book Rs. 1,442.90)

9. Prepare a Bank Reconciliation Statement as on 30th April 2006 from the following particulars.

P's Overdraft as per Pass Book was Rs.12,000 as on 30th April 2006

(a) On 28th April 06 cheques have been issued for Rs. 7,000 of which cheques worth Rs. 3,000 only had been encashed upto 30th April '96.

(b) Cheques amounting to Rs. 3,500 had been deposited into Bank for collection, out of those only Rs.500 has been credited in the Pass Book.

(c) Bank charged Rs.500 interest on overdraft, the intimation of which was received on 4th May.

(d) Bank Pass Book shows credit for Rs. 1,000 representing Rs. 400 paid by a debtor directly into the Bank and Rs. 600 collected by Bank in respect of interest on Mr. P's investments. P had no knowledge of these items.

(e) Bank has debited Rs. 1,200 on account of life insurance premium of Mr. P as per his standing advice which was not recorded in the Cash Book.

(f) Credit side of the Cash Book, bank column was cast short by Rs. 1000.

(B.Com. Nagarjuna)

(Ans. Overdraft as per Cash Book Rs. 11,300)

10. On 31st December, 2006 Desai's cash book showed bank overdraft of Rs. 50,000. On going through the bank pass book for reconciling the balance, he found the following :

(a) Out of cheques drawn on 26th December 2006 those for Rs. 3,500 were cashed by the bankers on 3rd January following, and a crossed chequefor Rs.1,200 given to Vijay was returned by him and a bearer cheque was issued to him in lieu on 2nd January 2007

(b) Cash and cheques amounting to Rs. 4,500 were deposited in bank on 26th December 2006 but cheques worth Rs. 1,500 were cleared by the bankers on 2nd January 2007 and one cheque for Rs. 400 was returned by them as dishonoured on later date.

(c) According to standing instructions of Desai, bankers have on 30th Dec. 06 Paid Rs.200 as interest to his creditors, paid quarterly premium on his policy amounting to Rs. 150 and have paid first call of Rs.500 on shares held by him. They have also received Rs.175 as dividend on shares held by him, and recovered an insurance claim of Rs. 750, their charges and commission on the above being Rs.20. Mr. Desai made entries in his cash book on 3rd January 2006

Prepare a bank reconciliation statement as at 31st Dec. 2006

(Ans. Pass book overdraft Rs. 47,145)

11. On 30th June 2006 the CashBook of Ram & Shyam showed a balance of Rs. 4,000 at bank. They sent cheques amounting to Rs. 20,000 to the bank before 30th June, but it appears from the Pass Book that cheques worth Rs. 8,000 had been credited. Similarly, out of cheques for Rs.10,000 issued during the month of June, cheques for Rs. 5,000 were presented and paid in July. The Pass Book showed the following payments :

(a) Rs. 640 as premium (as per instructions)

(b) Rs. 4,000 against a promissory note (as per instructions)

The Pass Book showed that the bank had collected interest on securities worth Rs.12,000 @ 10%.

The bank had charged interest Rs. 100 and bank charges Rs. 40. There was no entry in the Cash Book for these payments, interests etc.

(B.Com Nagarjuna)

(Ans. Bank Overdraft as per Pass Book Rs. 6,580)

12. The Cash Book of a trader showed an overdraft balance of Rs. 1,729 on 31st March 2006 However, this did not agree with balance in the Pass Book on comparing the two books, the following discrepancies were found.

(a) Out of cheques forRs. 1,100 drawn on the bank, cheques for Rs. 600 were not presented for payment with in that date.

(b) Out of cheques for Rs. 1,680 deposited in the bank cheques for Rs. 930 only were collected within that date.

(c) A cheques for Rs. 150 received from a customer, though entered in the bank columns of the Cash Book, was omitted to be sent to the bank for collection.

(d) Rs. 2,500 being the proceeds of a bill receivable collected by

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the bank appeared in the Pass Book but not in the CashBook.

(e) Bank charges Rs.15 and interest on Overdraft Rs. 85 appeared in the Pass Book only.

Prepare the Bank Reconciliation Statement.

(B.Com. Andhra)

(Ans. Favourable Balance as per Pass Book Rs. 371)

13. From the following particulars taken on 31st December 2006 you are required to prepare a bank reconciliation statement to reconcile the bank balance shown in the cash book with that shown in the pass book.

a) Balance as per pass book on 31st December 2006 Overdraft Rs. 1,027.

b) Four cheques drawn on 31st December, but not cleared till January following:
Rs. 12, Rs. 1021, Rs. 98 and Rs. 113

c) Interest on Overdraft not entered in Cash Book Rs. 51.

d) Three cheques received on 30th December and entered in the bank column of cash book but not lodged in bank for collection till January 3rd next :
Rs. 1,160, Rs. 2,100 and Rs. 2,080.

e) Cost of cheque book, Pass book etc. Rs. 1.50 entered twice erroneously in cash book in November.

f) Bills Receivable for Rs. 250 due on 29th December 2006 was passed to the bank for collection on 28th December 2006 and was entered in cash book forthwith whereas the proceeds were credited in the pass book only in January following.

g) Chamber of Commerce subscription Rs. 10 paid by bank on Ist December 2006 had not been entered in the cash book.

h) Bank Charges Rs. 5 had been debited in the pass book twice erroneously.

B.Com Madurai.

(Ans. Favourable Balance as per cash book Rs. 3,383.50)

14. The bank balance of Suresh Awasthi as per his pass book in 30th September 2006 was Rs. 5,000. On comparing the pass book with the cash book, it was observed that :-

a) Cheques received from Raju Rs. 420; Dilip Rs. 310 and Ashok Rs. 580 were entered in the pass book on 3rd October though deposited in bank on 30th September.

b) Cheques issued on 29th September by Suresh Awasthi to Satish, Rajesh and Ramesh for Rs. 430, Rs. 350 and Rs. 570 respectively were entered in the pass book on 5th, 8th and 10th October respectively.

c) Bank charges Rs. 40 on cheques received and deposited by him into bank were not entered in the cash book.

d) A cheque drawn, entered in cash book and then cancelled was paid in cash but the cancellation was not entered in cash book Rs. 3,000.

e) A credit total of the bank column Rs. 1,500 was brought forwrd to the debit side.

f) The credit side of the bank column was undercast Rs. 700.

g) Bank had credited the pass book with Rs. 1,750 for dividend which is debited in cash book for Rs. 1,050 only. Prepare Bank Reconciliation Statement.

(Ans. Bank balance as per cash book Rs. 5,000)

15. From the following information, prepare a Bank Reconciliation statement as at 31st December 2006 for Messrs. New Steel Ltd :

		Rs.
1)	Bank Overdraft as per Cash Book on 31st December 2006	2,45,900
2)	Interest debited by Bank on 26th December 2006 but no advice received	27,800
3)	Cheques issued before 31st December 2006 but not yet presented to Bank	66,000
4)	Transport subsidy received from the State Government directly by the bank but not advised to the company	42,500
5)	Draft deposited in the bank, but not credited till 31st December 2006	13,500
6)	Bills for collection credited by the Bank till 31st December 2006 but no advice received by the company	83,600
7)	Amount wrongly debited to company's account by the Bank, for which no details are available	7,400

(C.A. Entrance)

(Ans. Rs. 1,02,500)

16. Assist Mr. Ignorant in ascertaining his cash book balance. The following information is available:

i) His Pass Book showed a debit balance of Rs. 9,550 as on 31-3-06

ii) Cheques issued on 11-3-06 for purchases for Rs. 5,900 were credited in the Pass Book as Rs. 5,400 on 25-3-06

iii) A bill of Rs. 2,500 discounted at 5% flat, was returned dishonoured and was wrongly credited in the Pass Book on 27-3-06

iv) An amount of Rs. 850 paid in cash, towards salary was wrongly posted to the salary account as Rs. 1,850

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v) A cheque for Rs. 2,150 received from Mr. Burman was entered twice in the cash book on 20-3 06 but the cheque was not collected by the Bankers till 31-3 06

vi) A cheque for Rs. 1,725 appears to have been deposited directly by Mr. clock on 20-3-06 was returned dishonoured on 30-3-06

vii) A cheque for Rs. 3,600 was issued on 17-3-06 to Mr. Day on 19-3-06 he returned the cheque and received cash. However, the entry made on 17-3-06 was not cancelled by mistake.

(B.Com. Osm.)

(Ans. Bank Overdraft as per cash book Rs. 25,150)

17. On 31st December 2006 Dhanraj's cash book showed that he had an ovedraft of Rs. 4,300 on his Current Account with the Bank of India. On verifying the cash book with the Bank Statement you find the following:

i) Cheques drawn amounting to Rs. 1,500 had been entered in the Cash Book but had not been presented for payment.

ii) On instructions from Dhanraj the bank had transferred interest of Rs. 160 on his Savings Deposit Account on 5th January, 2007 the amount had, however, been debited in the Cash Book on 30th December, 2006

iii) Out of cheques of Rs. 800 deposited into the bank for collection, cheques amounting to Rs. 350 only were credited in the Pass Book before 31st December, 2006.

iv) The receipt side of the cash book was overcast by Rs. 175.

v) An entry of Rs. 275 of a payment by a customer direct into the bank on 29th December, 2006 was informed to Dhanraj on 1st January, 2007 and the same was entered in the Cash Book immediately.

Prepare Bank Reconciliation statement as on 31st December, 2006

(B.Com. Osm.)

(Ans. Bank overdraft as per pass book Rs. 3,310)

18. Prepare a Bank Reconciliation Statement from the following particulars.

On 28th February 2006 Sri Ravindra's cash book showed a favourable balance of Rs. 8,215. On comparing the entries with pass book he discovered the following:

i) Following cheques were issued on 25th February 2006 in favour of Rajesh Rs. 500, Ramesh Rs. 750, Rakesh Rs. 400, Ranvir Rs. 250 and Ranjeet Rs. 600. But the last two cheques were not presented to the bank for payment before 28th February.

ii) Cheques amounting to Rs. 1,805 deposited on 26th February were collected by the bank in March 2006

iii) The pass book showed the following debits: Rs. 45 for interest on bank loan; Rs. 125 for insurance premium. Rs. 22 for

electricity bill and Rs. 15 for commission for various services.

iv) The pass book showed following credits Rs. 52 interest on investments and Rs. 148 for dividends on company securities.

v) A cheque entered in cash book on 28th Feburary could not be deposited on the day ; Rs. 2,500

vi) Two cheques of Rs. 3,000 each were issued and paid by bnak on 20th February to M/s. Rajan & Co., but there was entry in cash book for only one cheque.

vii) A Bill Receivable due on 26th February for Rs. 2,500 was deposited in bank for collection which was credited in pass book on 4th April 2006

(Ans. Bank overdraft as per pass book Rs. 747)

19. On March 31 2006 the bank book of Sri P. Bhanu Murthy showed a debit balance of Rs. 2,000 whereas the cash book showed a credit balance of Rs. 6,320. the difference was accounted for as follows:

i) Following cheques drawn on 28th March have not been presented for payment : Sri L.N. Reddy Rs. 500; Sri Ramadas Rs. 400.

ii) Followoing cheques paid into bank on 30th March had not been credited in the pass book before 31st March: Sri Harish Rs. 600, Sri Ravi Shanker Rs. 450.

iii) Dividends on shares collected by the bank directly but not entered in cash book Rs. 70.

iv) Bank charges not entered in cash book till 31st March 2006 Rs. 20.

v) Interest on overdraft debited in pass book before 31st March but not entered in cash book Rs. 80.

vi) A cheque of Rs. 110 directly paid into the bank by Murli, returned dishonoured.

vii) Three cheques totalling Rs. 3,500 were drawn and entered in cash book on 31st March but two cheques were presented on 4th April and the third for Rs. 1,200 was returned on 6th April being dishounoured due to over-writing of amount.

viii) A cheque for Rs. 1,000 was issued in March but was later cancelled and cash was paid. But the entry for issue of cheque was not cancelled. You are required to draw up a Bank Reconciliation Statement as on 31st March 2006

Hint: Cheque directly paid into bank and dishonoured will not appear in reconciliation statement.

20. Prepare a bank reconciliation statement from the following particulars:

	Rs.
Bank Overdraft as per cash book	8,000

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Cheques deposited in bank but no entry was passed in the cash book.	300
Cheque received entered in Cash Book but not sent to bank	1,000
Credit side of bank column cast short	100
Insurance premium paid directly by bank under standing advice	500
Bank charges entered in cash book twice	10
Cheques received returned back but no entry passed	400
Cheques issued returned back on account of technical grounds	300
Bills directly collected by bank	2,000
Bank charges debited by bank	12
Cheques received entered twice	500
Bills discounted dishonoured	4,000

State which items will require adjustment in the books of account.

(C.A.I.I.B.)

(Ans. Bank Overdraft as per pass book Rs. 11,902)

Hint : The Bank column credit side cast short Rs. 100 is to be added. Bank charges entered in Cash Book twice should be deducted to the extent of Rs. 10. 'Cheques received returned back' means cheques received from customers but dishonoured hence returned back to them. It should be added. Cheques issued returned back on account of technical grounds means cheques issued by the firm to the customers but dishonoured on technical grounds. It should be deducted. Cheques received entered twice Rs. 500 should be added. Bills discounted dishonoured should also be added.

21. From the following Particulars, prepare a Bank Reconciliation Statement of Alpha Electric Motors Private Limited as on 30th September 2006

(a) Overdraft on 30th September 2006 as per bank pass book Rs. 10,000.

(b) Cheques deposited in the bank but not recorded in cash book Rs. 100.

(c) Cheques received and recorded in the bank column but not sent to bank for collection Rs. 1,000.

(d) Several cheques were drawn in the last week of September, totalling Rs. 15,000. Of these, cheques totalling only Rs. 9,000 were cashed before 30th September.

(e) Similarly, several cheques, totalling Rs. 9,000 were sent for collection. Of these, cheques of the value of Rs. 1,500 were credited on 5th October and Rs. 2,000 on 7th October, the balance being credited before 30th September.

(f) On 11th September 2006 the credit side of the bank column of the cash book was cast Rs. 1,000 short and the credit balance

of Rs. 2,600 on 15th September 2006 was brought forward on 16th September 2006 as debit balance of Rs. 2,600.

(g) Fees of Rs. 250 was paid directly by the bank but was not recorded in the cash book.

(h) In the cash book, a bank charge of Rs. 30 was recorded twice while another bank charge of Rs. 50 was not recorded at all.

(i) Interest of Rs. 1,400 was charged by the bank but was not recorded in cash book.

Prepare the Bank Reconciliation Statement.

(C.A.I.I.B.))

(Ans. Bank Overdraft as per cash book Rs. 3,730)

Hints : The credit side of the Cash Book Bank column cast short should be deducted. Similarly credit balance of Rs. 2,600 brought forward as debit balance on the next day should also be deducted with Rs. 5,200 as in both the cases the cash book overdraft will be less than the pass book overdraft.

22. From the following particulars prepare a Bank Reconciliation Statement of Sri Narendra Dubey, as at 31st March, 2006 Bank Balance as per Cash Book Rs. 15,000

1) On 28th March. 2006 debit side of the Cash Book was overcast by Rs. 2,000.

2) On 30th March 2006 credit side of the Cash Book was undercast by Rs. 1,000.

3) A cheque for Rs. 2,000 drawn by Sri Surendra Dubey had been charged to Sri Narendra Dubey's account in error in March, 2006

4) A bill for Rs. 5,000 discounted for Rs. 4,800 returned dishonoured by Bank, noting charges Rs. 100, not recorded in Cash Book.

5) A bill for Rs. 2,000 discounted with the bank is entered in the Cash Book without recording the discount charges Rs. 200.

6) A cheque entered as a deposit in the Cash Book instead of a payment Rs. 500

7) A cheque drawn for Rs. 99 had been incorrectly entered in the Cash Book as Rs. 999.

8) Bank paid a Bill payable for Rs. 2,450 but it was recorded in Cash Book as Rs. 2,540.

9) Discount allowed Rs. 250 has been entered through mistake with the cheque in Bank column of the Cash Book.

10) On 30th March. 2006 instructions were given to Bank to transfer Rs. 5,000 to Fixed Deposit Account, and entry for this was made in cash book, but the Bank acted on April 2, 2006

Prepare the Bank Reconciliation Statement.

(Ans. Bank Balance as per Pass Book Rs. 9,440)

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23. The following Bank Reconciliation Statement was drawn up by Mr. Inexperience. You are required to re-draft it after rectifying the erros, if any, and to ascertain the correct Balance as per Pass Book. Assume Bank Balance as per Cash Book is Correct.

Bank Reconciliation Statement
for the year ended 31st December, 2006

	Rs.	Rs.
Bank Balance as Per Cash Book (Dr.)		50,000
Add :		
Cheques deposited but not credited by bank	5,000	
Amount directly deposited into Bank by a customer	3,000	
Interest and diivdends credited in Pass Book	1,000	
Bank Charges debited by Bank	500	9,500
		59,500
Less :		
Cheques issued but not presented for payment	3,000	
Cheque drawn for personal use but not yet entered in Cash Book	2,000	
Interest on Fixed Deposit credited in Pass Book	1,500	6,500
Bank Balance as per Pass Book (Cr.)		53,000

(Ans. Rs. 51,000)

24. The Bank pass book of Account No. 1 of Mr. Stone showed an overdraft of Rs. 33,575 on 31st March 2006 On going through the pass book, the accountant found the following.

(a) A cheque of Rs. 1,080 credited in the pass book on 28th March being dishonoured is debited again in the pass book on 1st April 2006 There was no entry in the Cash Book about the dishonour of the cheque until 15th April.

(b) Bankers had credited his account with Rs. 2,800 for interest collected by them on his behalf, but the same had not been entered in his cash book.

(c) Out of Rs. 20,500 paid in by Mr. Stone in cash and by cheque on 31st March, cheques amounting to Rs. 7,500 were collected on 7th April.

(d) Out of cheques amounting to Rs. 7,800 drawn by him on 27th March a cheque for Rs. 2,500 was encashed on 3rd April.

(e) Bankers seem to have given him wrong credit for Rs. 500 paid by him in Account No. 2 and a wrong debit in respect of a cheque for Rs. 300 against his account No. 2.

Prepare bank reconciliation statement on 31st March 2006

(B.Com. - Punjab)

(Ans. Bank overdraft as per cash book Rs. 31,575)

Hint : The cheque of Rs. 1,080 dishonoured debited in pass book on 1st April, 2006 should not be taken into consideration in Reconciliation statement, because the statement is prepared on 31st March 2006

25. * On 31st December 2006 the bank balance as per cash book of A Ltd. stood at Rs. 2,160. On scrutinising Bank Current Account No. 1 with the bank pass book the cashier noticed the following :

(1) A cheque of Rs. 80 drawn on No. 2 Account had been wrongly debited to No. 1 Account by the Bank.

(2) A cheque for Rs. 100 paid in No. 2 Account had been wrongly creditd to No. 1 Account.

(3) A cheque for Rs. 60 paid in No. 1 Account stands wrongly credited to No. 2 Account.

(4) A dishonoured cheque for Rs.40 relating to No. 1 Account, the entry in respect of which had been passed through the cash book, stood wrongly charged to No. 2 Account.

(5) Cheques for Rs.240 paid in on 29th December stood credited in the pass book on 3rd January.

(6) Out of cheques amounting in all to Rs.550 drawn and issued on 28th December, only cheques worth Rs. 220 had been cashed before 31st December.

(7) Bank charges amounting to Rs. 6 debited and bank interest Rs. 25 credited in pass book are not yet recorded in the cash book.

You are required to prepareBank Reconciliation Statement as at 31st December 2006

(C.A.I.I.B.)

(Ans. Balance as per Pass Book Rs. 2,269)

26. * Janardhan & Co have bank accounts with two banks, viz Dena Bank and Bank of India. On 31st December2006 in his cash book (bank columns) shows balance of Rs. 5,000 with Dena Bank and overdraft of Rs. 2,250 with Bank of India. On further verification, the following facts were discovered.

(a) A deposit of Rs.1,500 made in Dena Bank on 28th December 2006 has been entered in the column for Bank of India.

(b) Withdrawal of Rs. 500 from Bank of India on 2nd November 2006 has been entered in the column for Dena Bank.

(c) Two cheques of Rs. 500 and Rs. 750 deposited in Dena Bank on 1st December 06 (and entered in the Bank of India column) have been dishonoured by the bankers. The entries for dishonour have been made in the Bank of India column.

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(d) Cheques were issued on 19th December 2006 on Dena Bank and Bank of India of Rs. 10,000 and Rs.1,000 respectively. These have not been cashed till 31st December 2006

(e) Incidental charges of Rs. 10 and Rs. 25 charged by Dena Bank and Bank of India respectively, have not been entered in the books.

(f) Dena Bank has credited an interest of Rs. 50 and Bank of India has charged interest of Rs. 275-00. These have not been recorded in the books.

(g) The deposits of Rs. 5,000 and Rs. 3,500 made into Dena Bank and Bank of India respectively have not yet been given credit by them till 31st December 2006

(C.A.I.I.B.)

(Ans. Bank Balance as per Dena Bank Pass book Rs. 12,040 and overdraft as per Bank of India pass book Rs. 7,050)

Hint : Two reconciliation statements have to be prepared. Deposit of Rs. 1,500 made in Dena Bank, but entered in Bank of India column should be added in both the statements. Similarly, withdrawal of Rs. 500 from Bank of India entered in Dena Bank column should also be added in both the statements. Cheques of Rs. 500 and Rs. 750 deposited in Dena Bank have been entered in Bank of India column and the entry for dishonour is also made in Bank of India column. So, there is no effect in Bank of India bank balance. These cheques have been dishonoured so there is no change in Dena Bank balance either as per cash book or pass book. Hence, this item will not enter in reconciliation statements of both Dena Bank and Bank of India.

27. ★ Perfect Private Ltd. has two accounts with EverBank Ltd. The accounts were known as 'Account-I' and 'Account II'.As at 31st December, 2006 the balance as per account books reflected the following.

Account I Rs. 1,25,000 Regular balance

Account II Rs. 1,11,250 Overdraft balance

The accountant failed to tally the balance with the Pass Book and the following information was available :

(a) The Bank has charged Interest on Account-II Rs. 11,375 and credited interest on Account-I Rs. 1,250. These were not recorded by the accountant.

(b) Rs. 12,500 drawn on December 10 2006 from Account-I was recorded in the books of Account -II.

(c) Bank Charges of Rs:150 and Rs.1,125 for Account-I and Account-II were not recorded in the books.

(d) A deposit of Rs. 17,500 in Account-I was wrongly entered in Account-II in the books.

(e) Two cheques of Rs. 12,500 and Rs. 13,750 deposited in Account in Account-I but entered in Account-II in the books were

dishonoured. The entries for dishonoured cheques were entered correcly in Account - II.

(f) Cheques issued for Rs. 1,50,000 and Rs. 15,000 from Account-I and II respectively were not presented for payment until Jan. 5, 2007

(g) Cheques deposited Rs. 1,25,000 and Rs. 1,17,500 in Account -I and Account- II respectively, were credited by bank on Feb. 2, 2007

You are reguired to prepare the Bank Reconciliation Statement for Account -I and II.

(I.C.W.A. Inter)

(Ans. Account I - Favourable Rs. 1,56,100
Account II - Overdraft Rs. 2,31,250)

28. On December 31, 2006 tne bank column of the cash book of Mr. P shows a debit balance of Rs. 922. On examination of the cashbook and bank statement you find that:

(a) Cheques amounting toRs. 1,260 issued before December 31, and entered in the cash book were not presented for payment till after that date.

(b) Cheques amounting to Rs. 500, entered in the cash book as sent to the bank on December 31st were entered in the bank statement after that date.

(c) A cheque from a debtor for Rs. 146 had been dishonoured prior to December 31st, but not recorded in cash book.

(d) A dividend warrant for Rs. 76 was paid direct to the bank and nothing appeared in the Cash Book.

(e) Bank interest and charges amounting to Rs. 84 were not entered in the cash book but appeared in the bank statement.

(f) There was no entry in the cash book for a club membership subscription, Rs. 20 paid by bankers in November 1985.

(g) Bank charges (postal) for a cheque book received by P Rs. 2 was entered in the cash book twice.

(h) A cheque of Rs. 54 drawn by Q had been charged to P's account in error in 2006

Make appropriate adjustments in the cash book to bring down the correct balance and prepare a statement reconciling the cash book balance with the balance as per the bank statement.

(B.Com., Calcutta)

(Ans. Amended cash book balance Rs. 750, pass book balance Rs. 1,456)

Hints: In amended cashbook entries have to be made regarding dishonoured cheque of Rs. 146, dividends paid into bank Rs.76, bank interest and charges Rs. 84 payment of club membership fees Rs.20 and for cancellation of extra

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entry for bank charges (postal) Rs. 2. The other items will appear in reconciliation statement.

29. From the following entries in the bank column of the cash book of Mr. A and corresponding bank pass book, prepare a Bank Reconciliation Statement as on 31st March 2006

Cash Book (Bank Column)

Dr. Cr.

Date 2006 March	Particulars	Amount	Date 2006 March	Particulars	Cheque No.	Amount
		Rs.				Rs.
1	To Balance	3,400	5	By Drawings	526	1,500
10	To M.Das Cheque	500	8	By Salaries	527	2,200
13	To J. Dey-Cash	4,000	15	By Purchases	528	3,000
18	To C. Lal-Cheque on Delhi	1,200	20	By R. Bros.	529	1,550
			29	By House Rent	530	800
20	To A Bomen Cheque	2,200	30	By K. Bros.	531	400
29	To Bose	5,700	31	By N. Kumar	532	1,600
31	To A Jeevan Ch.	3,425	31	By Balance		9,375
		20,425				20,425

Bank Pass Book-A's Account

Date 2006 April	Withdrawals	Chq. No.	Amt.	Date 2006 April	Deposits	Amount
			Rs.			Rs.
1	To Balance Overdraft		350	1	By Dividend	750
2	" C. Ramdas	530	800	3	" A Boman	2,200
4	" K. Bros	531	400	4	" J. Jeevan	400
8	" Self	534	2,200	7	" D. Bose	5,700
10	" Self	535	700	7	" A. Jeevan	3,425
12	" N. Kumar	532	1,600	11	" C. Lal-Cheque on Delhi cleared less charges	1,198
12	" Balance c/d		8,323	15	" Interest on G.P. Note	700
			14,373			14,373
				16	Balance b/d	8,323

Hint : Cheque issued but not presented Rs. 800, Rs. 400 and Rs. 1,600 Cheques paid in, but not credited in passbook Rs. 2,200; Rs.5,700; Rs. 3,425 and Rs. 1,200.

(C.A.I.I.B.)

30. The following are the Cash Book and Bank Pass Book of Niranjan for the month of April, 2006

Cash Book (Bank Column)

Dr. Cr.

Date 2006 April	Particulars	Amount	Date 2006 April	Particulars	Cheque No.	Amount
		Rs.				Rs.
1	To Balance b/d	12,500	1	By Salaries	183	4,000
4	To Sales A/c	8,000	6	By Purchases A/c	184	3,200
8	To Parimal A/c	1,500	11	By MachineryA/c	185	6,000
13	To Mahim A/c.	3,400	15	By Omprakash A/c	186	1,000
18	To Kamal A/c.	4,600	19	By Drawings A/c	187	800
21	To Furniture A/c.	1,200	23	By Kishore A/c	188	2,000
25	To Sales A/c.	3,800	27	By Suresh A/c.	189	1,000
30	To Firoz A/c	3,000	30	By Printing A/c	190	500
			30	By Balance c/d.		19,500
		38,000				38,000
May 1,	To Balance b/d	19,500				

Bank Pass Book

Date 2006 April	Particulars	Ch. No.	Deposits	Withdrawals	Balance
1	Balance				12,500
2	Cheque	183		4,000	8,500
6	Cheque		8,000		16,500
6	Cheque	184		3,200	13,300
10	Cheque		1,500		14,800
16	Cheque		3,400		18,200
17	Cheque	187		800	17,400
20	Cheque		4,600		22,000
24	Cheque		3,800		25,800
28	Cheque	185		6,000	19,800
28	Cheque	189		1,000	18,800
30	Interest		100		18,900
30	Deposit(K.sen)		3,000		21,900
30	Charges			10	21,890

30th April, 2006 You are required to prepare a bank reconciliation statement as

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CHAPTER 3
Bills of Exchange

Whenever goods are sold on credit, the buyer promises to pay the amount due on a future date. In such a case, generally, a written document is prepared to acknowledge the amount payable by the buyer to the seller. The written document may take the form of a Bill of Exchange or Promissory Note.

According to Negotiable Instruments Act "A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of, a certain person or to the bearer of the instrument."

Essentials of a bill of exchange:

(1) It must be in Writing.
(2) It must be an order to pay.
(3) The order must be unconditional.
(4) It must be signed by the maker, i.e. drawer
(5) The order must be directed to a certain person.
(6) The order must be for the payment of money only.
(7) The amount payable must be certain.
(8) The amount must be payable to a certain person, named in the instrument or to his order or to the bearer of the instrument.
(9) It must be properly stamped.
(10) There are three parties to a bill of exchange.
    (1) Drawer - The person who draws or makes the bill. He is generally the creditor or the seller of the goods on credit.
    (2) The Drawee. The person on whom the bill is drawn. In other words, he is the person who is required to make the payment. He is normally the buyer of goods on credit. The drawee become acceptor after he accepts the bill.
    (3) The payee. The payee is the person named in the bill to whom the

amount of the bill is payable. The payee may be the drawer himself or some other person.

(11) The date on which a bill becomes due for payment is called 'the due date' or 'the date of maturity of the bill'. A period of 3 days known as 'Grace days' have to be added to know the due date. If the due date falls on a day which is public holiday, the due date shall be preceeding business day.

Advantages of bills of exchange

1. Bill of exchange fixes the date of payment. The debtor knows when he will be required to make payment. The creditor also knows when to expect money.
2. A bill of exchange is a negotiable instrument and can be used in settlement of debts. It can be passed on to other parties, thus it serves almost the same purpose as cash.
3. It is a written and signed acknowledgement of debt and provides conclusive proof of indebtedness. If a bill of exchange is dishonoured, it would be easier to recover the amount legally than in case of an ordinary debt.
4. A bill of exchange can be discounted with a bank, hence a party allowing credit can receive cash immediately.
5. A debtor enjoys full period of credit, as he can never be called upon to pay the amount of the bill before the due date.

Distinction between bill of exchange and cheque

According to Negotiable Instruments Act 'a cheque' is a bill of exchange drawn on a specified banker payable on demand. A cheque differs from a bill of exchange in the following respects.

1. A cheque is always drawn on a bank, but a bill of exchange can be drawn on any person including a bank.
2. A cheque is drawn by a debtor, whereas a bill of exchange is drawn by a creditor.
3. A cheque does not require any acceptance, it is to be paid immediately whereas a bill must be accepted before drawee can be made liable upon it.
4. A cheque is payable immediately on demand without any days of grace, but in case of bill of exchange three grace days are allowed, unless it is payable on demand.

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5. A cheque can be crossed, but not a bill of exchange.
6. When a cheque is dishonoured, notice of dishonour is not necessary. But it is necessary to give a notice of dishonour in order to make the drawer of a bill liable.

Promissory Note

According to Indian Negotiable Act, a Promissory Note is an instrument in writing (not being a bank note or currency note) containing an unconditional undertaking, signed by the maker to pay a certain sum of money only to , or to the order of a certain person, or to the bearer of the instrument.

Parties to a Promissory Note

(1) The maker - who signs the promissory note (debtor) and undertakes to pay a certain sum of money.

(2) The payee - The person to whom the amount is payable - creditor.

Features of a Promissory Note

1) It must be in Writing.
2) It must be signed by the maker.
3) It must be unconditional Promise to pay.
4) The amount payable must be certain and should be expressed in terms of money.

Distinction between Bills of Exchange and Promissory Note:

1) There are three parties to a bill of exchange, namely the drawee drawer and the payee, while in a promissory note there are only two parties maker and payee.
2) In case of bill of exchange there is an unconditional order to pay, while in case of promissory note there is an unconditional promise to pay.
3) In case of bill of exchange, the instrument is drawn by the person who has to receive money, whereas a promissory note is accepted by a person who has to pay money.
4) In case of bill of exchange drawer and payee can be the same person whereas in case of promissory note maker and payee cannot be the same person.
5) A bill of exchange requires an acceptance of the drawee before it is presented for payment while a promissory note does not require any acceptance since it is signed by the person who is liable to pay.
6) In case of bill of exchange, the liability of the drawer is secondary and conditional. But in case of promissory note the liability of the maker is primary and absolute

7) In case of dishonour of a bill of exchange either due to non-acceptance or non-payment, notice must be given to all persons liable to pay. But in case of promissory note, notice of dishonour to the maker is not necessary.

Accounting Treatment:

1. **When a bill is drawn and accepted.**

Journal entry in the books of Drawer:

Bills Receivable Account	Dr.	
To Acceptor's Account		

Journal entry in the books of Acceptor

Drawer's Account	Dr.	
To Bills Payable Account		

2. **When a bill is honoured on the due date**

Journal entry in the books of Drawer:

Cash Account	Dr.	
To Bills Receivable Account		

Journal entry in the books of Acceptor

Bills Payable Account	Dr.	
To Cash Account		

3. **When the Drawer endorses the bill to his creditor.**

In the books of Drawer:

Endorsee's Account	Dr.	
To Bills Receivable Account		

4. **When the drawer of the bill gets it discounted with Bank.**

In the books of Drawer:

Bank Account	Dr.	
(with actual amount received)		
Discount Account		
(With discount allowed)		
To Bills Receivable Account.		

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5. When the drawer sends the bill to Bank for collection

(i) When the bill is sent for collection

Bill sent to bank for-collection A/c	Dr.	
To Bills Receivable A/c.		

(ii) When the bill is actually collected

Bank account	Dr.	
To Bill sent to bank for collection A/c		

Note : When the bill is endorsed or discounted or sent to bank for collection, there will not be any entry in the books of acceptor, as he is not affected by such acts.

Dishonour of Bills

When the acceptor fails to make the payment on the due date, the bill is said to be dishonoured. When the bill is dishonoured on the due date, the holder of the bill can get such fact noted on the bill by a notary public to prove the fact of dishonour by the acceptor. For doing this the notary public will charge some fees known as noting charges.

Journal Entries in the books of Drawer in case of dishonour of a bill.

(i) When bill is retained till the due date and dishonoured.

Acceptor's A/c.	Dr.	(with the amount of the bill and noting charges)
To Bills Receivable A/c		(with the amount of the bill)
To Cash A/c.		(with the amount paid towards noting charges)

(ii) When the bill endorsed in favour of creditor is dishonoured.

Acceptor's A/c.	Dr.	(with the amount of bill and noting charges, if any)
To Creditor's A/c.		

(iii) When the bill discounted with bank is dishonoured.

Acceptor's A/c.	Dr.	(with the amount of bill and noting charge, if any)
To Bank A/c.		

(iv) When the bill sent to the bank for collection is dishonoured

Acceptor's A/c	Dr.	(with the amount of bill + noting charges)
To Bills sent to bank for collection A/c		(with the amount of the bill)
To Bank A/c		(with noting charges)

In the Books of Acceptor

In all the cases the acceptor makes same entry i.e.

Bills Payable A/c.	Dr.	(with the amount of bill)
Noting Charges A/c.	Dr.	(with the amount of noting charges)
To Drawer's A/c.		(with the amount of bill and noting charges)

Renewal of Bill

When the acceptor of a bill is unable to honour the bill on the due date, he may request the drawer to cancel the original bill and draw on him a new bill for another period. In such a case the acceptor has to pay interest for the extended period to the drawer. Interest can be either paid in cash or may be included in the new bill. On renewal of bill, the following entries are passed:

In the books of the Drawer :

(i) For cancellation of original bill. The entry is same as in case of dishonour of a bill.

(ii) For interest for the extended period

Acceptor's Account	Dr.	
To Interest Account		

(iii) For the new bill (including amount of interest)

Bills Receivable Account	Dr.	
To Acceptor's Account		

In the books of the Acceptor

(i) For Cancellation of the original bill

Bills Payable Account	Dr.	
To Drawer's Account		

(ii) For interest for the extended period

Interest Account	Dr.	
To Drawer's Account		

(iii) For accepting the new bill

Drawer's Account	Dr.	
To Bills Payable Account		

Retiring a Bill :

Retiring a bill means making payment before the date of maturity. Following are the accounting entries :-

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In Drawer's Book :

Cash Account	Dr.	(with actual amount received)
Rebate on Bills A/c	Dr.	(with the amount of Discount)
To Bills Receivable A/c		(with amount of bill)

In Acceptor's Book

Bills Payable Account	Dr
To CashAccount	
To Rebate on Bills Account.	

Accommodation Bills :

Usually a bill is drawn to settle a trade debt owing to the drawer by the drawee. The words "value received" in the body of the bill indicates that the bill is drawn as consideration for the goods sold or amount paid by the drawer to the acceptor. Such types of bills are known as trade bills. But sometimes a bill of exchange can be accepted without consideration to help accommodation of drawer and acceptor. The accommodation bills may take any one of the following forms (1)When it is drawn for the accommodation of drawer only : A person in need of money draws a bill of another person who accepts the bill and returns it to the drawer. The drawer gets the bill discounted with his bank and uses the proceeds till the maturity of the bill. On the due date, the drawer remits the amount of the bill to the acceptor who in turn honours the bill. (2) When the bill is drawn for the mutual accommodation of the drawer and acceptor. The drawer draws a bill on another person who accepts it without consideration. The drawer gets the bill discounted with the bank and the proceeds are shared by the drawer and acceptor in agreed proportions. They also share the discount in the same proportion in which they share the cash proceeds of the bill. Before the due date of the bill the drawer sends his proportion to the drawee to enable him to meet the bill by adding his share of money. (3) In some cases where two persons are in need of funds they draw bills on each other for equal or different amounts. After securing acceptance, both get their bills discounted with their respective banks. They share the discount in proportion to the amount shared by them. Both the bills may be honoured or dishonoured on due date. Entries to be made for accommodation bills are almost the same as for trade bills.

For the sake of easy understanding the entries are given inthe form of example.

Distinction between trade bills and accommodation bills

1) Trade bills arise on account of genuine business transaction whereas accommodation bills are drawn to help someone in need of funds.
2) Trade bills are drawn and accepted for some consideration. while accommodation bills are drawn and accepted without any consideration.
3) Trade bills may or may not be discounted with bank. accommodation bills are always discounted with bank.
4) When trade bills are discounted, the proceeds remain with the holder. In case of accommodation bills, amount received after discounting may be shared by drawer and acceptor as agreed upon.
5) In case of trade bills, legal action can be taken in case of dishonour of bill. In case of accommodation bill, the drawer and drawee cannot take legal action. But a third party like banker who is holder in due course can enforce the bill and take legal action.

Sharing of Discount when the ratio is not given: In some problems, mainly in problems of accommodation bills, the ratio in which the parties bear loss on discount of bills is not given. In such cases, the loss is to be borne by the parties, in the ratio of the amount received by them. This is explained with the help of an example.

X draws a bill for Rs. 1,500 and Y accepts the same for mutual accommodation of both, to the extent of X 2/3 and Y 1/3. X discounts the same for Rs. 1,410 and remits 1/3 of the proceeds to Y. Before the due date, Y draws another bill for Rs. 2,100 on X, in order to provide funds to meet the first bill, the second bill is discounted for Rs. 2,040 with the help of which the first bill is met and Rs. 360, are remitted to X. Ascertain the discount to be borne by X and in respect of the bill for Rs. 2,100.

Solution: X after drawing a bill for Rs. 1.500 on Y, remitted 1/3rd of the proceeds to Y. Discount of Rs. 90 is also shared by them in the same ratio. In effect X has received Rs. 1,000 (cash Rs. 940+Discount Rs. 60) and Y received Rs. 500 (cash Rs. 470 + Discount Rs. 30). X has to still pay, Y Rs. 1,000 before the due date of the bill Y drew a bill on X for Rs. 2,100 and got it discounted for Rs. 2040, remitted Rs. 360 to X. We have to ascertain the ratio in which discount of Rs. 60 (Amount of the bill Rs. 2,100 less amount received on discounting the bill Rs. 2,040 is shared by and). It is ascertained as follows:

	Rs.
Amount due by X to Y towards first bill	1,000
Add. amount received by X from Y on getting the second bill discounted	360
Total amount due to Y	1,360

Rs. 1,360 is 2/3rd of the proceeds of the second bill 2,040
Discount Charge is 2/3rd of the total discount
i.e. $\frac{2}{3} \times 60 = Rs.\ 40$

Alternatively, it can be ascertained as follows:
If net amount received is Rs. 2,040 then discount is Rs 60
" " Rs. 1,360 ? X 60= Rs.40

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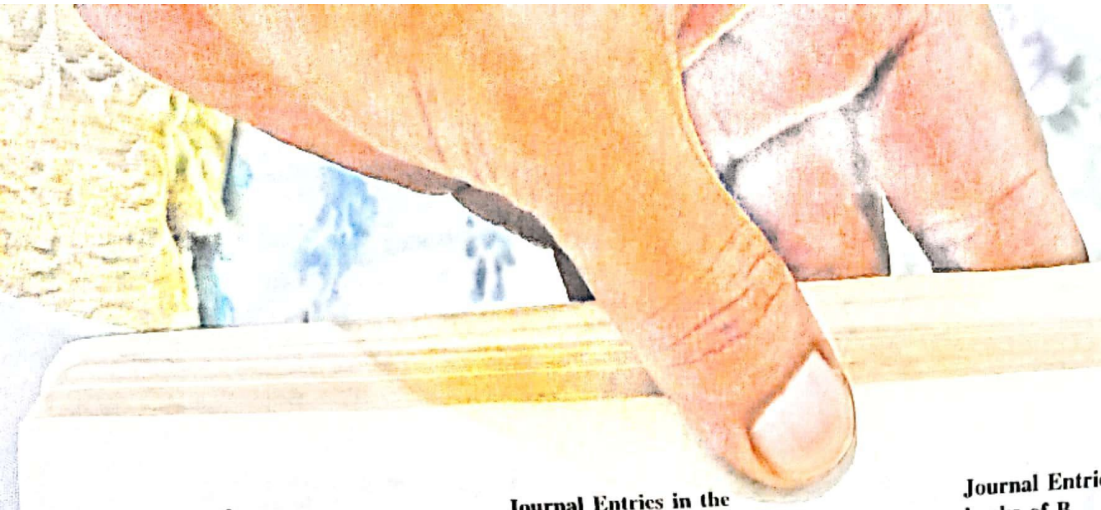

Transaction	Journal Entries in the books of A	Journal Entries in the books of B
1. When goods are sold by A to B on credit	B's A/c ... Dr. To Sales A/c	Purchases A/c ... Dr. To A's A/c
2. When bill is drawn by A and accepted by B.	Bills Receivable A/c ... Dr. To B's A/c	A's A/c ... Dr. To Bills Payable A/c
3. When the bill is retained by A till the due date and it is honoured on the due date	Cash A/c ... Dr. To Bills Receivable A/c	Bills Payable A/c ... Dr. To Cash A/c
4. When the bill is discounted by A with Bank.	Bank A/c ... Dr. (With the actual amount received) Discount A/c ... Dr. (with discount allowed) To Bills Receivable A/c	
5. When A endorses the bill to his creditor C.	C's A/c ... Dr. To Bills Receivable A/c	
6. When A sends the bill to the Bank for collection		
(i) For sending the bill	Bill sent to Bank for Collection A/c ... Dr. To Bill Receivable A/c	
(ii) When the bill is actually collected	Bank A/c ... Dr. To Bill sent to Bank. for Collection A/c	**Note :** When the bill is discounted or endorsed or sent to bank for collection by A, there will not be any entry in the books of B as he is not affected. He records the entry for payment of the bill on the due date.
7. When the bill is retired by B before the due date i.e. when the acceptor makes payment before the due date	Cash A/c ... Dr Rebate on Bills A/c ... Dr. To Bills Receivable A/c	Bills Payable A/c ... Dr. To Cash A/c To Rebate on Bills A/c
Dishonour of Bill		
8. When the bill is retained till the due date and it is dishonoured	B's A/c ... Dr (with amount of bill plus noting charges, if any) To Bills Receivable A/c (with the amount of the bill) To Cash A/c (with noting charges)	Bills Payable A/c ... Dr (with amount of bill) Noting charges A/c ... Dr To A's A/c (with the total of bill and noting charges)

C–9

C–10

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9. When the bill discounted with bank dishonoured on the due date	B's A/c ... Dr To Bank A/c (with the amount of bill plus noting charges, if any)		Same as above
10. When the bill endorsed to C dishonoured on the due date	B's A/c ... Dr To C's A/c (with the amount of bill plus noting charges, if any)		Same as above
11. When the bill sent to the bank for collection is dishonoured on the due date.	B's A/c ... Dr To Bill Sent to Bank for Collection A/c To Bank A/c		Same as above
Renewal of Bill			
12. When the bill drawn by A on B is cancelled	B's A/c ... Dr. To Bills Receivable A/c		Bills Payable A/c ... Dr. To A's A/c
13. When interest is charged by A on B	B's A/c ... Dr To Interest A/c		Interest A/c ... Dr To A's A/c
14. When cash is received by A from B as part payment	Cash A/c ... Dr To B's A/c		A's A/c ... Dr To Cash A/c
15. When new bill is drawn by A on B	Bills Receivable A/c ... Dr To B's A/c		A's A/c ... Dr To Bills Payable A/c

Illustration 1 On 1st April 2006 Kamal accepts a three moths bill drawn by creditor Vinod for Rs. 10,000. On 5th May 2006 Vinod discounts the same at 5% p.a. Kamal, being unable to meet the bill at maturity, requests Vinod to accept Rs. 4,000 in cash and to draw another bill for three months for the balance sum plus interest at 7% p.a. and Vinod agrees to it. But before the second bill matures, Kamal becomes insolvent and is unable to pay any amount what so ever. Show the journal entries in the books of both the parties.

(B.Com. Nagarjuna)

Solution:

Journal Entries int he books of Vinod

			Debit Rs.	Credit Rs.
2006	Bills Receivable A/c	Dr.	10,000	
April 1	To Kamal A/c			10,000
	(Being acceptance received from Kamal)			
May 5	Bank A/c	Dr.	9,916	
	Discount	Dr.	84	
	To Bills Receivable A/c			10,000
	(Being bill discounted)			
July 4	Kamal A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being the bill dishonoured on the due date)			
"	Cash	Dr.	4,000	
	To Kamal A/c			4,000
	(Being amount received from Kamal)			
"	Kamal A/c	Dr.	105	
	To Interest A/c			105
	(Being interest receivable from Kamal)			
"	Bills Receivable A/c	Dr.	6,105	
	To Kamal A/c			6,105
	(Being a new acceptance received)			
Oct 7	Kamal A/c	Dr	6,105	
	To Bills Receivable A/c			6,105
	(Being the bill dishonoured on the due date)			
"	Bad Debts A/c	Dr	6,105	
	To Kamal A/c			6,105
	(Being Kamal A/c written off as bad debt)			

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Journal Entries in the books of Kamal

			Debit Rs.	Credit Rs.
2001 April 1	Vinod A/c	Dr	10,000	
	To Bills Payable A/c			10,000
	(Being the bill drawn by Vinod accepted)			
July 4	Bills Payable A/c	Dr	10,000	
	To Vinod A/c			10,000
	(Being the bill dishnoured)			
" "	Vinod A/c	Dr	4,000	
	To Bank			4,000
	(Being part payment made to Vinod)			
" "	Interest A/c	Dr	105	
	To Vinod A/c			105
	(Being interest payable to Vinod)			
"	Vinod A/c	Dr	6,105	
	To Bills Payable A/c			6,105
	(Being a new bill accepted)			
Oct 7	Bills Payable A/c	Dr	6,105	
	To Vinod A/c			6,105
	(Being the bill dishonoured)			
"	Vinod A/c	Dr	6,105	
	To Deficiency A/c			6,105
	(Being the amount due to Vinod transfered to Deficiency A/c)			

Illustration 2

A for the mutual accommodation of himself and B, draws upon the later a bill of exchange at 3 months date for Rs. 8,000 dated 1st January. 2006 The bill is discounted by A at 10% P.a and half of the proceeds are remitted to B.

B at the same time, for a similar purpose, draws a bill of exchange at 3 months on A for Rs. 4,000. After securing A's acceptance the bill is discounted at 12% p.a. by B who remits half the proceeds to A. B becomes bankrupt on 31st March, 2003 and the first and final dividend of 25 percent was received from his estate on 15th May, 2006

Write up the journal entries in the books of both the parties. Prepare B's Account in the books of A.

Solution :

Journal Entries in the books of A

	Particulars		Debit Rs.	Credit Rs.
2003 Jan.1	Bills Receivable A/c	Dr.	8,000	
	To B A/c			8,000
	(Being the acceptance received from B)			
"	Bank A/c	Dr.	7,800	
	Discount A/c	Dr.	200	
	To Bills Receivable A/c			8,000
	(Being the acceptance received from B)			
"	B A/c	Dr.	4,000	
	To Bank A/c			3,900
	To Discount A/c			100
	(Being half of the proceeds remitted to B, half of the discount charged to B)			
	B A/c	Dr.	4,000	
	To Bills Payable A/c			4,000
	(Being bills drawn by B accepted)			
	Bank A/c	Dr.	1,940	
	Discount A/c	Dr.	60	
	To B A/c			2,000
	(Being half of the proceed received from B)			
Apr. 4	B A/c	Dr.	8,000	
	To Bank A/c			8,000
	(Being the bill accepted by B dishonoured due to B's insolvency)			
"	Bills Payable A/c	Dr.	4,000	
	To Bank A/c			4,000
	(Being the bills payable honoured on due date)			
May 15	Bank A/c	Dr.	1,500	
	Bad Debts A/c	Dr.	4,500	
	To B A/c			6,000
	(Being amount received from B, balance written off as bad debts)			

In the books of A

B Account

Dr.					Cr.
		Rs.			Rs.
2006 Jan1	To Bank A/c	3,900	2003 Jan 1	By Bills Receivable A/c	8,000
	" Discount A/c	100		" Bank A/c	1,940

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"	" Bills payable	4,000	"	" Discount A/c		60
Apr. 4	" Bank A/c	8,000	May15	" Bank A/c		1,500
			"	" Bad Debts A/c		4,500
		16,000				16,000

Journal Entries in the books of B

	Particulars		Debit Rs.	Credit Rs.
2006 Jan.1	A A/c	Dr.	8,000	
	To B A/c			8,000
	(Being the bill drawn by A accepted)			
"	Bank A/c	Dr.	3,900	
	Discount A/c	Dr.	100	
	To Bills Receivable A/c			4,000
	(Being half of the proceeds received from A)			
"	Bills Receivable A/c	Dr.	4,000	
	To A A/c			4,000
	(Being acceptance received from A)			
"	Bank A/c	Dr.	3,880	
	Discount A/c	Dr.	120	
	To Bills Receivable A/c			4,000
	(Being the bill discounted with bank)			
"	A A/c	Dr.	2,000	
	To Bank A/c			1,940
	To Discount A/c			60
	(Being half of the proceeds remitted to A and half of the discount charged to him)			
Apr. 4	Bills Payable A/c	Dr.	8,000	
	To A A/c			8,000
	(Being the bill dishonoured on the due date)			
May 15	A A/c	Dr.	6,000	
	To Bank A/c			1,500
	To Deficiency A/c			4,500
	(Being the amount paid to A, the balance transferred to Deficiency A/c)			

Illustration 3

Neelu draws a bill on Bhanu for Rs. 3000 and Bhanu accepts the same for the mutual accommodation of both of them to the extent of Neelu 2/3 and Bhanu 1/3. Neelu discounts the same for Rs. 2820 and remits 1/3 to Bhanu. Before the due date Bhanu draws another bill for Rs. 4200 on Neelu in order to meet the first bill. The second bill is discounted for Rs. 4080 with the help of which the first bill is met and Rs. 720 remitted to Neelu. Before the due date of the second bill Neelu becomes insolvent and Bhanu receives a dividend of 0.50 Paise in the rupee in full satisfaction. Pass necessary journal entries in the books of Neelu an Bhanu.

(B.Com. Nagarjuna)

Solution :

In the books of Neelu

Journal

		Dr. Rs.	Cr. Rs.
Bills Receivable A/c	Dr	3,000	
To Bhanu A/c			3,000
(Being the acceptance received from Bhanu)			
Bank A/c	Dr	2820	
Discount A/c	Dr	180	
To Bills Receivable A/c			3,000
(Being the bill discounted with bank)			
Bhanu A/c	Dr	1,000	
To Bank A/c			940
To Discount A/c			60
(Being 1/3 Proceeds of bill sent to Bhanu)			
Bhanu's A/c	Dr	4,200	
To Bills Payable A/c			4,200
(Being the bill drawn by Bhanu accepted)			
Bank A/c	Dr	720	
Discount A/c	Dr	80	
To Bhanu's A/c			800
(Being the amount received from Bhanu and proportionate discount charged)			
Bills Payable A/c	Dr	4,200	
To Bhanu A/c			4,200
(Being the bill accepted by Bhanu dishonoured)			
Bhanu's A/c	Dr	2800	
To Bank A/c			1400
To Deficiency A/c			1400
(Being 50% of the amount due paid to Bhanu and the balance transferred to Deficiency A/c)			

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Journal entries On the books of Bhanu

		Dr. Rs.	Cr. Rs.
Neelu A/c	Dr	3,000	
To Bills Payable A/c			3,000
(Being the acceptance given to Neelu)			
Bank A/c	Dr	940	
Discount A/c	Dr	60	
To Neelu's A/c			1,000
(Being 1/3 rd proceeds received from Neelu)			
Bills Receivable A/c	Dr	4200	
To Neelu's A/c			4,200
(Being the acceptance received from Neelu)			
Bank A/c	Dr	4080	
Discount A/c	Dr	120	
To Bills Receivable A/c			4,200
(Being the bill discounted)			
Neelus A/c	Dr.	800	
To Bank A/c			720
To Discount A/c			80
(Being the amount given to Neelu and Proportionate discount charged to him)			
Bills Payable A/c	Dr	3,000	
To Bank A/c			3,000
(Being the bill payable honoured)			
Neelu' A/c	Dr	4,200	
To Bank A/c			4,200
(Being the bill dishonoured)			
Bank A/c	Dr	1,400	
Bad Debts A/c	Dr.	1400	
To Neelu's A/c			2,800
(Being 50% of the amount due from Neelu received)			

Dr. Neelu's Account Cr

	Rs.		Rs
To Bills payable A/c	3000	By Bank A/c	940
" Bank A/c	720	" Discount A/c	60
" DiscountA/c	80	" Bills Receivable A/c	4,200
" Bank A/c	4,200	" Bank A/c	1,400
		" Bad Debts A/c	1,400
	8,000		8,000

Note: The discount for the bill of Rs. 4200 to be borne by Neelu is arrived as follows:

Amount due from Neelu 2000
Amount received from Neelu 720
Total amount 2720

Discount on Bill Rs. 4200-4080 = Rs. 120
If the amt received is Rs. 4080 then discount is Rs. 120
If the amt received is Rs. 2720 then discount is Rs. ?
= 2720/4080 x 120 =Rs. 80

Alternatively, it can be ascertained as follows:

Amount received & payable by Neelu is Rs. 2720. This is 2/3 rd of the amount received after the bill is discounted Rs. 4080. (Rs. 4200-120). Hence 2/3rd discount is to be borne by Neelu.

Short Answer Questions

1. A draws a bill on B for Rs. 1,000 payable after three months. The bill is honoured on the due date. Pass journal entries in the books of A and B
2. X draws a bill on Y payable after three months for Rs. 1,500. After securing Y's acceptance, X gets it discounted with his bank at 9% p.a. On the due date the bill is honoured. Pas journal entries in the books of X and Y.
3. P draws a bill on Q for Rs. 2,000 payable after four months. After securing Q's acceptance, P endorses it over to R. On the due date the bill is honoured. Pass journal entries in the books of P,Q, and R.
4. C draws a bill on D for Rs. 2,500 payable after 2 months. D accepts the bill. C deposits the bill with bank for collection. On the due date the bill is honoured. Pass entries in the books of C and D.
5. Ram accepts a bill drawn by Shyam for Rs. 4,000 payable after three months. On the due date the bill is dishonoured. Noting charges amounted to Rs. 20. Pass journal entries in the books of Ram and Shyam.
6. Sharma draws a bill on Varma for Rs. 6,000 payable after 4 months. After securing Varma's acceptance, Sharma gets it discounted with his bank @ 9% p.a. On the due date the bill is dishonoured. Noting charges amounted to Rs 15. Pass journal entries in the books of Sharma and Varma.
7. Prakash draws a bill on Deepak for Rs. 5,000 payable after three months. Prakash, after securing Deepak's acceptance endorses the bill to his creditor Pradeep. On the due date the bill is dishonoured. Noting charges amounted to Rs. 25. Make entries in the books of Prakash and Deepak.

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8. On Ist january 2006 M drew a bill for Rs. 1,000 on N for three months. N accepted the bill and returned it to M. On 4th March 2006 N retired the bill under rebate of 6 percent per annum. Record these transactions in the Journal of M.

9. Dinesh sold goods to Rakesh on Ist October 2006 for Rs. 2,600. Rakesh immediately accepted a bill payable after 3 months. On the due date Rakesh requested the bill to be renewed for a further period of 2 months. Dinesh agreed, provided interest at 10% was paid immediately. The second bill was met on the due date. Pass journal entries in the books of Dinesh and Rakesh.

10. Ramana accepted a bill drawn by Swami for Rs. 1,200 payable after 3 months. On the due date Ramana requested Swami to renew the bill for a further period of 3 months at 9% p.a. interest. Swami agrees to the proposal. On the due date the second bill is again dishonoured. Pass journal entries in the books of Ramana and Swami

11. B accepts a bill drawn on him by C for Rs. 1,500 payable after three months. On the due date the bill is dishonoured. Noting charges amounted to Rs. 20. B then pays Rs. 500 in cash and accepts a bill of exchange drawn on him for the balance together with Rs. 25 as interest. Pass journal entries in the books of B and C.

12. Rajesh accepted a bill drawn by Ajay for Rs. 5,000 payable after three months for the accommodation of Ajay. Ajay got the bill discounted with his bank for Rs. 4,900. On the due date Ajay sent the necessary sum to Rajesh who met the bill. Give the journal entries in the books of both the parties.

13. Sukhi and Dukhi were both in need of funds temporarily. On Ist September 2006 Sukhi accepted Dukhi's draft for Rs. 3,000 for 3 months. On the same date Dukhi accepted a bill of exchange payable to Sukhi for Rs. 3,000 for three months. Both these bills were discounted at 6% p.a. On the due date both parties met their acceptances. Give journal entries in the books of both the parties.

14. A bill accepted for Rs. 10,000 and due on 31st March 2006 is retired under rebate at 12% on 31st December, 2005 Show the necessary journal entry.

(B.Com Osm)

15. Journalise the following in the books of Ravi :
   i) Ravi's own acceptance in favour of Mohan for Rs. 2,500 received from Hari in settlement of his debt for the like amount.
   ii) Ravi retires his own acceptance for Rs. 1,000 in favour of Rahim one month before the due date under rebate of 10% p.a.

(B.Com. Osm)

PROBLEMS

1. A bill of exchange for Rs. 1,000 is drawn by Ram & Co. on Shyam & Co. and accepted by the latter payable at Andhra Bank. Show the journal entries in the books of account of Ram & Co. under each of the following circumstances:
   a) If they retained the bill till the due date and realised on maturity.
   b) If they got it discounted with their bankers for Rs. 980.
   c) If they endorse it over to their creditors Balram & Co. in full settlement of their dues of Rs. 1,050.
   d) If they sent the bill to the bank for collecton.

2. On 15-4-06 Mohan drew three bills worth Rs. 2,400 on his debtor Suresh - First bill was for Rs. 700 of one month, second bill was for Rs. 800 of two months and third bill was for Rs. 900 of four months. Suresh accepted all the three bills. On 20-4-06 Mohan endorsed the first bill to his creditor Ramesh in full settlement of his account for Rs. 710. On 22-4-06 the second bill was discounted for Rs. 792. The third bill was retained by him till the date of maturity. On the date of maturity the first bill was paid but the second bill was dishonoured, noting charges amounted to Rs. 10.

Mohan drew a fourth bill for Rs. 825 including Rs. 15 for interest for three months. Suresh accepted. On the date of maturity the third and fourth bills were honoured. Pass the necessary entries in the books of Mohan, Suresh and Ramesh

(B.Com. Nagarjuna)

3. On Ist July 2006 A sells goods to B for Rs. 10,000 and drew three bills on him. The first for Rs. 2,000 for one month, the second for Rs. 3,000 for 2 months and the third for Rs. 5,000 for three months. B accepts and returns these bills to A.

The first bill is retained by A till the date of maturity. The second bill is endorsed by A to his creditor C on 3rd July 2006 and third bill is sent to bank for collection on 4th July 2006 On maturity all bills were dishonoured and noting charges paid were Rs. 10, Rs. 15. and Rs. 20 respectively.

Give journal entries in the books of A, B and C

4. P draws a bill on Q for Rs. 600. Q accepts the same. P endorses the bill to R and R to T. T discounts the bill for Rs. 575. On the due date the bill is dishonoured. Show the journal entries in the books of all the parties.

(B.Com. Nagarjuna)

5. Vishwanath draws a bill on Jaganath for Rs. 1,400 for 4 months, which is accepted by Jaganath. Vishwanath discounts the same for Rs. 1,393. On maturity, Jaganath fails to honour the bill and requests Vishwanath to draw a new bill for 4 months for the original amount of the bill plus interest at 5% p.a. plus discounting charges. Vishwanath agrees to the proposal

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Make journal entries in the books of Vishwanath

(B.Com. Osm)

6. A sold goods for Rs. 4,000 to B on Ist July 2006 and on the same day drew a bill on B at three months for the amount. B accepted the bill and returned it to A, who discounted it on 4th August 2006 with his bank at 12 percent per annum. The acceptance was dishonoured on the due date and the bank paid Rs. 40 as noting charges. On 10th October 2006 B accepted a new bill for Rs. 4,080 payable after two month On Ist December 2006 B was declared insolvent and his estate paid a first and final dividend of 50 paise in the rupee on 31st December 2006

Pass journal entries to record these transactions in the books of A and show how B's Account will appear in A's Ledger.

7. B owes C a sum of Rs. 600. On Ist January 2006 he gives a Promissory Note for the amount for 3 months to C who gets it discounted with his bankers for Rs. 590. On the due date the bill is dishonoured, the bank paying Rs. 5 as Noting Charges. B then pays Rs. 200 in a cash and accepts a bill of exchange drawn on him for the balance together with Rs. 10 as interest. The bill is for 2 months and on the due date it is again dishonoured C paying Rs. 5 as noting charges.

Pass journal entries in the books of B and C

(C.A.I.I.B)

8. Balram purchased goods worth Rs. 4,800 on Ist April. 2006 from Raghuram and on the same date accepted a bill payable after 2 months. Three days later, Raghuram endorsed the bill to Sitaram in payment of his debt. On maturity, the bill was dishonoured by Balaram and Sitaram got it noted for Rs. 30. Ten days later Raghuram settled the account of Sitaram by paying him in cash. Fifteen days after the dishonour of the bill Balram paid Rs. 2,800 to Raghuram and requested him to draw another bill for the balance, plus Rs. 50 towards interest payable after two months. Raghuram accepted the proposal and drew the bill on Balaram which was accepted by him. Before the maturity of the second bill, Balram became bankrupt and only 50 paise in a rupee was received from his estate in full settlement of his debt.

Record the above transactions in the journals of Balram, Raghuram and Sitaram. **(B.Com. Osm)**

9. Journalise the following transactions in the books of Mahesh :-

i) Mahesh receives Ganesh's acceptance at three months for Rs. 3,000 and endoreses it in favour of Nagesh.

ii) Nagesh informs Mahesh that Ganesh's acceptance has been dishonoured and that noting charges are Rs. 30.

iii) Nagesh accepts Rs. 1,500 in cash and for the balance draws a bill on Mahesh at three months with interest at 12 percent p.a.

iv) Mahesh draws on Ganesh another bill at two months with interest at 12% p.a.

v) Ganesh's acceptance in favour of Mahesh is retired one month before the due date, interest being taken at 8% p.a.

(B.Com. Osm)

10. For the mutual accommodation of P and Q, P draws a bill on Q for Rs. 1500. Q accepts the bill and returns it to P. P discounts the same with his bankers and receives Rs. 1,440, the proceeds are shared between P and Q in proportion of 2/3 and 1/3 respectively. On the due date, P remits his portion to Q, who meets the bill. Pass necessary journal entries in the books of P and Q to record the above transactions

(B.Com. Kakatiya)

11. Kamp for the mutual accommodation of himself and Vamp, draws upon the latter a bill at 3 months for Rs. 8,000 dated Ist January. The bill is discounted by Kamp at 5% and half of the proceeds are remitted to Vamp.

Vamp at the same time draws a bill at three months on kamp for Rs. 4,000. After securing Kamp's acceptance the bill is discounted at 6% by vamp, who remits half of the proceeds to kamp. On the due date both retire their obligations. Write Journal entries in the books of Kamp.

(B.Com. Kakatiya)

12. On 1-6-2006 A drew a bill on B for Rs. 12,000 at four months for mutual accommodation. The bill was duly accepted by B. A discounted the bill at a discount of Rs. 300 and remitted one-third of the proceeds to B. On the date of maturity A remitted his share to B and the bill was ultimately honoured by B.

Record the journal entries in the books of A and B and also open their personal accounts in their respective books.

(B.Com. Sri Venkateswara)

13. P and R were in need of funds. Therefore, on Ist June, 2006 P accepts a bill for Rs. 5,000 drawn by R for three months. R got the bill discounted at 8% p.a. from his bank and remitted half of the proceeds to P. On the due date, however, R was not in a position to send the remaining half of the amount to P. On August 29, 2006 however, he agreed to accept a bill of Rs. 2,520 (inclusive of interest) drawn by P for three months, which P discounted for Rs. 2,500. On the due date R honoured the bill. Give journal entries in the books of P and R.

(B.Com. Punjab)

14. Ram for the mutual accommodation of himself and Rahim, draws upon the latter a bill at 3 months date for Rs. 800 dated Ist January. The bill is discounted by Ram at 5% and half the proceeds are remitted to Rahim. Rahim at the same time draws a bill at 3 months on Ram for Rs. 400. After receiving Ram's acceptance, the bill is discounted at 6% by Rahim, who remits half the proceed to Ram. Rahim becomes bankrupt on 31st March, and 25 paise in the rupee is received on 15th May as first and final dividend from his estate.

Pass journal entries and open the necessary accounts in books of the parties.

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15. X draws a bill for Rs. 3,000 and Y accepts the same for the mutual accommodation of both of them to the extent of X 2/3 and Y 1/3. X discounts the same for Rs. 2,820 and remits 1/3 of the proceeds to Y. Before the due date, Y draws another bill for Rs. 4,200 on X in order to provide funds to meet the first bill. The second bill is discounted for Rs. 4,080 with the help of which the first bill is met and Rs. 720 are remitted to X. Before the due date of the second bill, X becomes bankrupt and Y receives dividend of 50 paise in the rupee in full satisfaction.

pass the necessary journal entries in the books of X and Y.

(Company Secretaries, Inter-modified)

16. Lavakumar draws a bill for Rs. 9,000 on Paramesh on 2nd January 1996 for 3 months and gets it discounted on 3rd January with his bank for Rs. 8,820. He remitted 1/3rd of it to Paramesh on 5th January. On the due date Lavakumar fails to remit his share of amount to Paramesh, but accepts a bill for Rs. 12,600 for 3 months which Paramesh discounts for Rs. 12,330 and remits Rs, 2,220 to Lavakumar. Before the maturity of the bill Lavakumar becomes insolvent and only 50% was realised from his estate on July 10th

Pass Journal entries in the books of Lavakumar and prepare Parmesh Account.

(B.Com. Osm)

17. Vandana draws a bill for Rs, 6,000 and Varalaxmi accepts the same for mutual accommodaton of both of them to the extent of 2/3 and 1/3 respectively. Vandana discounts the same for Rs. 5,640 and remits 1/3 of the proceeds to Varalaxmi. Before the due date, Varalaxmi draws another bill for Rs. 8,400 on Vandana in order to provide funds to meet the first bill. The second bill is discounted for Rs. 8,160 with the help of which the first bill is met and Rs. 1,440 are remitted to Vandana. Before the due date of the second bill, Vandana became insolvent and Varalakshmi receives a dividend of 50 paise in the rupee in full satisfaction. Pass nacessary journal entries in the books of both the parties.

(B.Com. Osm)

18. X draws a bill for Rs. 1500 and Y accepts the same for the mutual accommodaton of both, to the extent of X 2/3 and Y 1/3. X discounts the same for Rs. 1,410 and remits 1/3 of the proceeds to Y. Before the due date Y draws another bill for Rs. 2,100 on X in order to provide funds to meet the first bill; the second bill is discounted for Rs. 2040 with the help of which the first bill is met and Rs. 360 are remitted to X. Before the due date of the second bill, X becomes insolvent and Y receives a dividend of 50 paise in the rupee in full satisfaction.

Pass necessry entries in the books of X

(B.Com. Osm., Kakatiya)

19. Latika, for mutual accommodation draws a bill for Rs. 3,000 on

Sumita. Lalita discounted the bill for Rs. 2,925 and remits 975 to Sumita. On the due date Latika is unable to remit her dues to Sumita to enable her to meet the bill. She however, accepts a bill for Rs. 3,750 which Sumita discounts for Rs. 3,525. Sumita sends Rs. 175 to Latika. Latika becomes insolvent and a dividend of 80 paise in the rupee is received from her estate.

Pass Journal entries and show the account of Sumita in the books of Latika.

(I.C.W.A. Inter)

20. On Ist January, Pankaj receives two acceptances from Ramesh one for Rs. 2,000 payable in 2 months, and the other for Rs. 4,000 payable in four months in full settlement of his account. Both these bills are duly discounted by Pankaj with his bankers on 3rd January at 6% p.a.

Before maturity of the first bill Ramesh requests Pankaj to assist him in taking it up by advancing him Rs. 1,000 in cash and drawing on him a third bill payable after 3 months for the amount due plus Rs. 25 interest. Pankaj does the needful and discounts the new bill for Rs. 1,010.

Just Before the maturity of the second bill for Rs. 4,000 Ramesh requests Pankaj to assist him ot the extent of Rs. 2,500. In order to help Ramesh, Pankaj arranges with Ramesh to draw on him (Pankaj) two bills for Rs. 1,000 and Rs. 1,500 at 2 months and three months respectively from the due date of the second bill. Pankaj accepts these two bills and delivers them to Ramesh, who discounts them at 6%. He then duly meets the bill for Rs. 4,000. Pankaj also meets his two acceptances on maturity. On 30th May, Ramesh becomes bankrupt leaving his third bill unpaid and nothing was recovered from his estate in respect of the claim.

Make the necessary journal entries in the books of both the parties.

21. Journalise the following transactions in the books of A :

a) Acceptance to B for Rs. 500 retired before due date, rebate allowed Rs. 10.

b) C's acceptance for Rs. 400 renewed for a further period of three months, with Rs. 5 as interest.

c) A bill drawn by D for Rs. 800 renewed for 3 months by paying Rs. 200 in cash and accepting another bill forRs. 609 including interest.

d) E's acceptance, for Rs. 500 endorsed in favour of F dishonoured, F paid Rs. 10 as noting charges. Paid F by cheque and accepted from E another bill for the amount due plus interest Rs. 15.

e) Due to lack of instructions, our Promissory Note in favour of H returned unpaid by Bank for Rs. 500. H claimed Rs. 510 which was paid by cheque.

f) Bill for Rs. 5,000 accepted by K was endorsed against another bill payable due for payment for the same sum.

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CHAPTER–4

TRIAL BALANCE AND RECTIFICATION OF ERRORS

Trial Balance

"Trial Balance is a statement containing the balances of all ledger accounts, as at any given date, arranged in form of debit and credit colouns placed side by side and prepared with the object of checking the arithmetical accuracy of ledger postings". The fundamental principle of double entry system of book-keeping is that every debit has a corresponding credit and vice-versa of equal amount. Therefore, the total of the debit balances must equal in aggregate to the total of the credit balances when accounts are balanced. The agreement of the trial balance signifies that both the aspects of each transaction have been recorded and that the books are arthimetically correct. If the trial balance does not agree, it suggests that there are some errors which must be detected and rectified before the final accounts can be prepared.

The main function of Trial Balance is that it acts as a device to check the arithmetical accuracy of the accounting process, it shows that ledger postings have been properly made and balance in each account is computed correctly. It acts as a starting point for the preparation of final accounts. It facilitates the preparation of Trading Profit and Loss Account and Balance Sheet by making available the balances of all the accounts at one place.

It should be noted that agreement of Trial Balance does not necessarily prove the accuracy of all the entries and postings. It is simply a proof of the total amount debited to various accounts is equal to total amount credited to other accounts in the same period. Trial Balance is a means by which only the arithmetical accuracy of the accounting work is checked. There are certain errors which are not disclosed by Trial Balance.

A trial balance can be prepared by any one of the following methods

1. Total Method:

Under this method, the debit and credit totals of each account are shown in the debit and credit columns of the trial balance.

2. Balance Method:

Under this method, the difference of each account is extracted. If the debit side of an account is bigger in amount than the credit side the difference is put in the debit column of the trial balance and if the credit side is bigger, the difference is written on the credit column of Trial Balance.

Points to be noted for the preparation of Trial Balance.

1. Accounts dealing with assets, expenses & losses will show debit balance.
2. Accounts dealing with liabilities, incomes and gain will show credit balance.
3. 'Sundry Debtors' is the total amount due from various debtors and 'Sundry Creditors' is the total amount due to various creditors.
4. Opening stock will show debit balance, generally closing stock will not appear in Trial Balance .
5. Reserves and Provisions such as General Reserve, Provision for doubtful debts, Reserve for discount on debtors will show credit balance. However Reserve for Discount on Creditors will show debit balance.

A table of the accounts appearing in trial balance on debit and credit side is given below.

Debit Balance	Credit Balance
Personal Accounts	**Personal Accounts**
Sundry Debtors	Sundry Creditors
Bank Balance	Bank Overdraft
Loan or Advance given	Loan taken or Mortgage loan
Drawings A/c	Capital A/c
Prepaid expenses	Outstanding Expenses
Real Accounts	**Real Accounts**
(a) dealing with goods	(dealing with goods)
Purchases Account	Sales Account
Opening Stock	Return Outwards Account
Returns Inwards	**Nominal Accounts**
(b) assets	All incomes & gains
Land and Building	such as Interest received
Plant & Machinery	Rent received
Furniture	Commission received
Investments	Discount received
Goodwill	Reserves & Provisions
Nominal Accounts	Provision for Doubtful Debts
All Expenses and losses	Provision for Discount on Debtors
such as Salaries, Rent &	General Reserve etc.
Taxes, Carriage, Advertisiing.	
Bad Debts etc.	

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Illustration

Prepare a Trial Balance from the following information

	Rs.
Capital Account	1,00,000
Plant and machinery	1,60,000
Sales	3,54,000
Purchases	1,20,000
Returns Outwards	1,500
Returns Inwards	2,000
Opening Stock	60,000
Discount allowed	700
Discount received	1,600
Bank charges	150
Sundry Debtors	90,000
Sundry Creditors	50,000
Salaries	13,600
Manufacturing Wages	20,000
Carriage Inwards	1,500
Carriage Outwards	2,400
Provision for Bad debts	1,050
Rent, Rates and taxes	20,000
Advertisements	4,000
Cash in Hand	1,800
Cash at Bank	12,000
Closing Stock	70,000

Solution :

Trial Balance As at. . . . . .

	Debit Balances Rs.	Credit Balances Rs.
Capital Account		1,00,000
Plant and Machinery	1,60,000	
Sales		3,54,000
Purchases	1,20,000	
Returns Outwards		1,500
Returns Inwards	2,000	
Opening Stock	60,000	
Discount allowed	700	
Discount received		1,600
Bank Charges	150	
Sundry Debtors	90,000	
Sundry Creditors		50,000
Salaries	13,600	

Manufacturing Wages	20,000	
Carriage Inwards	1,500	
Carriage Outwards	2,400	
Provision for bad debts		1,050
Rent. Rates and taxes	20,000	
Advertisements	4,000	
Cash in hand	1,800	
Cash at Bank	12,000	
	5,08,150	5,08,150

Hint : Closing Stock will not appear in Trial Balance.

Rectification of Errors

Error is a mistake committed in book-keeping. Errors can be broadly divided into (a) Errors of principle and (b) Clerical Errors.

Errors of Principle are committed when a transaction is not recorded according to accounting principles. For example capital expenditure treated as revue, business expenditure treated as personal expenditure etc.

Clerical Errors are those errors which are generally committed by the clerical staff while recording the transactions in the account books. Such errors may be:

(i) Errors of Omission: When a transaction is either completely or partially omitted from the books it is called error of omission. Examples: Purchase of goods on credit may be omitted to be entered in the purchases Book, sale of goods on credit omitted to be posted in the personal account of the customer etc.

(ii) Errors of Commission: Such errors arise when any transaction is incorrectly recorded either wholly or partially. Examples: entering wrong amount in subsidiary books, posting wrong amount to an account, posting correct amount to wrong side of an account etc.

(iii) Compensating Errors. In case of such errors one error is compensated–by other.

From another point of view, errors may be divided into two catagories. (1) Errors disclosed by disagreement of trial balance (2) Errors not disclosed by disagreement of trial balance.

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Errors disclosed by Trial Balance :

The following errors will be disclosed by a Trial Balance.

1) Wrong totalling of Subsidiary books.
2) Items omitted to be posted from a subsidiary book into ledger.
3) Posting of a wrong amount to a ledger account.
4) Posting an amount on the wrong side of the ledger account.
5) Wrong additions or balancing of ledger accounts.
6) An item of subsidiary book posted twice to ledger account.
7) Omission of a balance of an account in the trial balance.
8) Balance of some account wrongly entered in the trial balance.
9) Balance of some account written on the wrong side of trial balance.

Errors not Disclosed by a Trial Balance :

1) Omission of an entry altogether in a subsidiary book.
2) Writing the wrong amount in the subsidiary books.
3) Posting an item on the correct side but in the wrong account.
4) Compensating errors.
5) Errors of principle.

Rectification of errors discovered before the preparation of Trial Balance :

(1) Errors affecting one account :

Such errors can be rectified by giving an explanatory note. Example: "The Purchases Book is undercast by Rs. 500". As the mistake involves only one account, namely Purchases Account, rectification entry cannot be passed. The correction can be made by writing on the Debit side of Purchases Account.

"To correction of undercasting of Purchases Book for the month of ... ... Rs. 500".

(2) Errors Affecting two Accounts :

Such errors can be generally rectified by passing rectification entry. *Example* : "A sale of Rs. 50 to X was wrongly debited to the account of Y", can be rectified by passing the following rectification entry.

		Rs.	Rs
X's Account	Dr.	50	
To Y's Account			50

Sometimes even though the mistake is in two accounts, rectification entry cannot be passed. Example: "Rs. 200 received from Sastry has been debited to Sarma (Cash Book correctly entered)". In this case rectification

entry cannot be passed because the accounts of both Sastry and Sarma have to be credited. This mistake can be rectified by giving explantory note in both the accounts.

Rectification of Errors discovered after the preparation of Trial Balance:

If the Trial Balance does not tally inspite of best efforts, the presentation of final statement of accounts cannot be postponed for a long period. In such a case the difference of the Trial Balance is placed to a Suspense Account and the Trial Balance is made to tally. If the debit side is short, the Suspense Account will be debited and if the credit side is less, Suspense Account will be credited.

As explained earlier, the difference in trial balance is generally due to the mistake which effect only one account. For correcting such errors the account to be corrected will be debited or credited as the case may be and the journal entry will be completed by crediting or debiting the Suspense Account. When all the mistakes are rectified the Suspense Account will show nil balance.

If the mistake is in two accounts, the normal rectification entry should be passed and Suspense Account should not be touched. There is a wrong notion in the minds of some students that if Suspense Account balance is given in the problem, then corrections have to be made only through Suspense Account. For example, if it is stated that "Carriage on Machinery Rs. 1,000 has been debited to Carriage Account then Suspense Account will be neither debited nor credited. The rectification entry will be:

		Rs.	Rs.
Machinery Account	Dr.	1,000	
To Carriage Account			1,000

Corrections in next Trading Period:

If corrections are to be made in the next Trading Period, a separate account called Profit and Loss Adjustment Account should be opened and all debits and credits in respect of nominal accounts for errors comitted in previous Trading Period should be passed through that account. The balance of that account should be transferred to Capital Account. This method will ensure that the correction of mistakes of last year will not affect the Profit or Loss of the current year.

Illustration 1

The following errors were committed by the Accountant of M/S Das & Co.

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a) Cash paid to Ram Rs. 520 was posted in his account as Rs. 250.

b) Sales Day Book was undercast by Rs. 1000.

c) Purchase of stationery Rs. 200 were not posted to the Stationery Account.

d) Goods returned by Mr. Banerjee Rs. 1,500 posted to his account from Returns Inwards Book as Rs. 5100.

e) Purchased goods from S. Kishan for Rs. 1000 was entered in the Purchases Day Book Rs. 100.

f) Rs. 500 paid for new furniture was charged to Office Expenses account.

g) A sales of Rs. 500 to P.K. Sen was passed through the Purchases Day Book.

h) Salary paid to Mr. X Rs. 500 wrongly debited to his personal account.

Rectify the above errors by suitable journal entries whereever necessary assuming that they were detected before preparation of Trial Balance

(B.Com. Nagarjuna)

Solution:

a) This mistake is rectified by writing on the Debit side of Ram's Account as.

"To correction of wrong posting Rs. 270"

b) Mistake is rectified by writing on the credit side of Sales Account as

'By Correction of undercasting of Sales Book Rs. 1,000"

c) Mistake is rectified by writing on the Debit side of Stationery Account

"To correction of omission of posting Rs. 200"

d) Mistake is rectified by writing on the debit side of Banerjee Account.

"To correction of wrong posting Rs. 3600."

e) Rectification entry:

	Purchases A/c	Dr	900	
	To S. Kishan A/c			900
f)	Furniture A/c	Dr	500	
	To Office Expenses A/c			500
g)	P.K. Sen. A/c	Dr	1,000	
	To Sales A/c			500
	To Purchases A/c			500
h)	Salaries A/c	Dr	500	
	To X A/c			500

Illustration 2

The following errors were located in the books of a business concern after books were closed and suspense account was created in order to agree the trial balance.

1) An Amount of Rs. 600 paid for the repair of furniture was debited to Furniture Account.

2) Goods bought from a merchant amounting to Rs. 55 had been posted to the credit of his account as Rs. 550.

3) A dishonoured Bill Receivable for Rs. 400 returned by the bank had been credited to Bank Account and debited to Bills Receivable Account.

4) Sales Day book was overcast by Rs. 400.

5) General expenses Rs. 28 were posted in the ledger as Rs. 82.

Pass Journal entries to rectify the above mistakes and prepare the Suspense Account.

Solution :

Journal Entries

	Particulars		Debit Rs.	Credit Rs.
1	Repairs A/c	Dr.	600	
	To Furniture A/c			600
	(Being the mistake of debiting Furniture instead of repairs rectified)			
2	Suppliers A/c	Dr.	495	
	To Suspense A/c			495
	(Being the mistake of crediting suppliers A/c with excess amount rectified)			
3	Acceptor A/c	Dr.	400	
	To Bills Receivable A/c			400
	(Being the mistake of debiting B/R A/c instead of acceptor's a/c rectified)			
4	Sales A/c	Dr.	400	
	To Suspense A/c			400
	(Being rectification of overcasting of Sales book)			
5	Suspense A/c	Dr.	54	
	To General Expenses A/c			54
	(Being the mistake of debiting general expenses a/c with excess amount rectified)			

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Dr. **Suspense Account** **Cr.**

	Rs.		Rs.
To Balance b/f		By Suppliers A/c	495
(balancing figure)	841	" Sales A/c	400
" General Expenses A/c	54		
	895		895

Illustration 3

A book-keeper, while balancing his books, finds that Trial Balance did not agree. Being required to prepare final accounts, he places the difference to a newly opened Suspense Account which he carried forward to the next year. In the next year, the following mistakes were discovered.

1) Sales Book was overcast by Rs. 1000
2) General expenses of Rs. 1180 was posted in General ledger as Rs. 1800.
3) Auditor's fees Rs. 5,000 paid to Kailash Bang was debited to his personal account.
4) While carrying the total of one page of the purchases Book to the next page the amount of Rs. 21,350 was written as Rs. 21,530.
5) An amount of Rs. 5,200 owing by Rajesh had been omitted from the Schedule of Sundry Debtors.
6) Goods bought from a merchant amounting to Rs. 3,500 had been posted to the credit of his account as Rs. 8,500.
7) An item of Rs. 910 entered in the Sales Returns Book had been posted to the debit of the customer who returned the goods.

Pass the necessary journal entries, prepare Suspense Account, and show the effect of rectification on the Profit and Loss Account of the last year.

Solution:

Journal

			Debit Rs.	Credit Rs.
1)	Profit & Loss Adjustment A/c	Dr	1,000	
	To Suspense A/c			1,000
	(Being the correction of overcasting of sales book)			
2)	Suspense A/c	Dr	620	
	To Profit & Loss Adjustment A/c			620
	(Being the mistake of posting in general expenses rectified)			

3)	Profit & Loss Adjustment A/c	Dr	5,000	
	To Kailash Bang A/c			5,000
	(Being the mistake of debting personal account rectified)			
4)	Suspense A/c	Dr	180	
	To Profit & Loss Adjustment A/c			180
	(Being the mistake of debiting purchases account with excess amount rectified)			
5)	Debtors A/c	Dr	5,200	
	To Suspense A./c			5,200
	(Being the omission of an account from schedule of debtors rectified)			
6)	Supplier's A/c	Dr	5,000	
	To Suspense A/c			5,000
	(Being the correction of excess credit given to supplier)			
7)	Suspenses A/c	Dr	1,820	
	To Custmers A/c			1,820
	(Being the mistake of debiting customer's account instead of crediting rectified)			
8)	Capital A/c	Dr	5,200	
	To Profit & Loss Adjustments A/c			5,200
	(Being the loss arising out of corrections of last year's errors)			

Dr. **Suspense Account** **Cr.**

	Rs.		Rs.
To Balance b/d			
(balancing figure)	8580		
" Profit & Loss Adjustment A/c	620	By Profit & Loss Adjustment A/c	1,000
" Profit & Loss adjustment A/c	180	" Schedule of Debtors	5,200
" Customers A/c	1,820	" Suppliers A/c	5,000
	11,200		11,200

Profit & Loss Adjustment Account

	Rs.		Rs.
To Suspense A/c	1,000	By Suspense A/c	620
" Kailash Bang A/c	5,000	" Suspense A/c	180
		" Capital A/c-transfer	5,200
	6,000		6,000

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Short Answer Questions :

1. Prepare a Trial Balance from the following information

	₹
Outstanding Expenses	1,50
Returns outwards	3,00
Purchases	42,00
Office Expenses	9,00
Creditors	3,00
Loan	4,50
Machinery	3,00
Sales	30,00
Capital	18,00

(B.Com. Osm

(Total Rs. 60,000; Differencein Books Rs. 6,000

2. Rectify the following errors
   i) Purchase Book undercast by Rs. 250
   ii) Sales Book overcast by Rs. 850
   iii) Paid for Repairs Rs. 400 posted to the credit of Repairs accoun
   iv) Discount allowed to customer Rs. 35 not posted in customer's account.

3. Rectify the following errors :
   i) Rent paid Rs. 450 was posted as Rs. 540.
   ii) A credit purchase of goods from Raman. Rs. 2,500 was entered as Rs. 5,200.

4. Correct the following errors.
   a) Machinery purchased worth Rs 10,000, debited to purchase account.
   b) Furniture sold worth Rs. 800 credited to sales account.
   c) Rs. 200 received from Sukhi Ram has been wrongly entered a from Sakha Ram.
   d) Rs. 300 paid to landlord for rent debited to landlord's personal account.
   e) An amount of Rs. 150 previously written off as bad was recovered and credited to personal account of the customer.

5. Goods worth Rs. 5,000 were returned by a customer and were take into stock but no entry was passed. Explain the nature of the error.

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6. Rectifity the following errors showing their effect on Profits of the concern.

   i) Goods worth Rs. 500 returned by Gopal were entered in the sales book.
   ii) Goods sold to Rajendra Rs. 400 entered in the Purchase Book.
   iii) Goods received back from Atmaram, a customer, Rs. 200 have not been entered in the Returns Inwards Book at all.

PROBLEMS

1. From the following balances taken from the ledger of Sri Raganadhan, Prepare Trial Balance.

	Rs.
Purchases	15,750
Sales	21,000
Returns Inwards	600
Carriage Inwards	50
Freight outwards	65
Salaries and Wages	1,572
Rent and Taxes	526
Travelling Expenses	387
Opening Stock	12,000
Discount allowed	225
Discount received	110
Commission paid	108
Bank Account	6,027
Sundry Debtors	6,800
Trade Creditors	5,000
Capital Account	28,500
Drawings Account	4,500
Bills Receivable	8,000
Bills Payable	2,000
Closing Stock	15,800

(Ans. Total of Trial balance Rs. 56,610)

2. Rectify the following errors discovered before the preparation of Trial Balance.
   i) Machinery purchased for Rs. 10,000 debited to Purchases Account.
   ii) The total of Purchases Book is Rs. 1,500 short.
   iii) Sales Book is overcast by Rs. 1,250.
   iv) An item of Rs. 58 was posted as Rs. 85 in the Purchases Account.
   v) Goods purchased from Deepak worth Rs. 500 were omitted to be entered in the Purchases Book.

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vi) Total of the Returns Inward Book is undercast by Rs. 150.

vii) A sale of Rs. 235 to Sharma has been debited to his account as Rs. 352.

viii) Cash received from P. Krishna Murthy Rs. 300 posted to the account of N. Krishna Murthy.

ix) An amount of Rs. 1,500 withdrawn by the proprietor for personal expenses has been debited to Trade Expenses Account.

x) Salary paid to Ramdas, a clerk, Rs. 500 stands debited to his personal account.

xi) Discount of Rs. 75 allowed by Satyanarayana has not been entered in the Cash book although correctly posted in the ledger in his account.

3. Correct the following errors.

a) Goods amounting to Rs. 275 had been returned by a customer and were taken into stock, but no entry in respect thereof was made in the books.

b) A sale of Rs. 175 to Manoj was wrongly creditred to his account.

c) While posting the account of Ramana from the Purchases Book, the purchase of Rs. 651 has been debited to him.

d) A purchase of Rs. 785 from Prasad Bros. has been entered in the Purchases Book as Rs. 587.

e) Rs. 195 received from Suresh has been debited to Sudesh

f) Goods taken by the proprietor Rs. 500 have not been entered in the books at all.

g) Rs. 400 received from Dukhi against a debt previously written off has been credited to his account.

h) A sale of Rs. 350 to Ramakrishna has been entered in the Sales book as Rs. 850.

i) A purchase of Rs. 600 form Gupta & Co. has been entered in the Sales Book.

j) A sale of Rs. 900 to Sharma & Co. has been entered in the Purchases Book.

k) A contractor's bill for extension of Premises amounting to Rs. 5,000 has been debited to Building Repairs Account.

l) On 26th December 2006 goods of the value of Rs. 450 were returned by Prem Kumar and were taken into stock, but the returns were entered in the books under date 3rd January 2006 i.e. after the expiration of the financial year on 31st December 1979.

m) A Bill Receivable for Rs. 550 received from Padma Rao had been dishonoured on maturity and was posted to the debit of "Allowances Account".

4. Write entries for the rectification of following errors.

i) Sales book was overcast by Rs. 100.

ii) A Sale of Rs. 50 to X was wrongly debited to account of Y.

iii) General expenses of Rs. 18 was posted in the General ledger as Rs. 80.

iv) A bill receivable for Rs. 155 was passed through Bills Payable book. This bill was given by P.

v) Legal expenses Rs. 119 paid to Mr. Hari was debited to his personal account.

vi) Rs. 150 received from Gopal was debited to Govind

(B.Com. Osm)

5. Rectifty the following errors by using Suspense Account

a) Goods sold to Ram Rs. 175 were not posted to his account.

b) Purchases Book total was overcast by Rs. 400

c) Sales Book total was undercast by Rs. 53

d) Purchases Returns Book total was undercast by Rs. 16.

e) Cash received from Govind Rs. 111 was posted to his account as Rs. 1,111

f) Cash paid to Ranga Rs. 770 was posted to his account as Rs. 170 **(B.Com. Sri Venkateswara, Nagarujuna)**

6. A book keeper prepared a Trial Balance on 31st December, 2006 which showed a difference of Rs. 140 (excess credit). The difference was placed to a suspense account. The following errors were subsequently located.

a) A sale of goods to Raja for Rs. 600 had been posted to the wrong side of his account.

b) A purchase of goods for Rs. 1,640 from Uma has been posted to the personal account as Rs. 640

c) A credit sale of old furniture for Rs. 150 had been passed in sales day book.

d) The discount received account had been cast short Rs. 60

e) Payment of rent Rs. 340 was debited to the personal account of the landlord.

Pass Journal entries to rectify the errors and prepare the suspense account.

(B.Com Nagarjuna)

7. In taking out a Trial balance a book keeper finds that he is out, Rs. 8 excess debit. Being desirous of closing the books he places the

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difference to a newly opened Suspense Account. which is carried forward. In the next period he discovers that:

i) A credit item of Rs. 97 has been debited to a personal account as Rs. 79

ii) A sum of Rs. 95 written off from fixtures as depreciation has not been debited to Depreciation Account.

ii) Rs. 1,500 paid for furniture has been charged to ordinary purchases account.

iv) A discount of Rs. 37 allowed to customer has been credited to him as Rs. 73.

v) The total of the inwards return has been added Re. 1 short

vi) An item of Rs. 59 was posted as Rs. 95 in the Sales A/c.

(B.Com. Sri Venkateswara, SKD, Andhra)

8. The total of the debit column of the Trial Balance is short by Rs. 1000 and is made to agree by putting this amount against a suspense account. Later the following errors are discovered. Rectify these errors and prepare suspense account.

1) Goods worth Rs. 300 were returned by Guntur Trading Company. The amount was credited to their account but was not recorded in the Returns Inward Book.

2) Goods Worth Rs. 700 were sold to Mahindra on credit. This was entered in the Sales Book but was not posted.

3) Vijayawada Trading Mart Paid Rs. 580 but was credited with Rs. 508.

4) An amount of Rs. 260.owing by Dilip was omitted from the schedule of Sundry Debtors.

5) The Purchases Book was overcast by Rs. 188

(B.Com Nagarjuna)

9. A Book keeper while balancing his books finds that he is out with an excess credit of Rs. 91.80. Being required to prepare the Final Accounts, he places the difference to a newly opened Suspense Account which he carries forward to the next year. In the next year the mistakes were discoverd as follows:

a) Goods bought from a merchant amunting to Rs. 5.50 had been posted to the credit side of his account as Rs. 55.00

b) A dishonoured cheque for Rs. 200 returned by the firm's bank had been credited to Bank Account and debited to general expenses account.

c) An item of Rs. 10.10 entered in the sales returns book had been posted to the debit of the customer who returned the goods

d) Sundry items of plant sold amounting to Rs. 260 had been entered in the Sales Day Book.

e) An amount of Rs. 60 owing by a customer had been omitted from the schedule of sundry debtors.

f) Discount amounting to Rs. 2.50 allowed to a customer had been only posted in his account but not entered in the discount column of the cash book.

Draft the journal entries necessary for rectifying the above mistakes. Prepare the Suspense A/c.

(B.Com. Osm)

10. A book keeper finds that the debit side of the Trial Balance is short of Rs. 308. So, for the time being, he balances the side by putting the difference to Suspense account. Subsequently, following errors are disclosed.

a) An entry for goods for Rs. 102 sold to Madhav was posted to his account as Rs. 120.

b) Rs. 100 being monthly total of discount allowed to customers was credited to discount account in the ledger.

c) Rs. 275 paid by Madhav were credited to Jadhav's account.

d) Rs. 26 appearing in cash book as paid for purchase of stationery has not been posted in the ledger.

e) Debit side of purchases account was undercast by Rs. 100.

You are required to make necessary journal entries and prepare Suspense Account.

(B.Com. Kakatiya, Intitute of Company secretaries - Inter)

11. The books of A. Vijayan did not agree. The accountant placed the difference of Rs. 1,270 to the debit of Suspense Account. Rectify the following errors and prepare Suspense Account.

a) The total of the Purchase Returns Book Rs. 210 has not been posted.

b) A sale of Rs. 430 to Krishna Textiles has been credited as Rs. 340.

c) A purchase of Rs. 400 from Sankaran has been entered in the Sales Book. However, Sankaran's Account has been correctly credited.

d) A sale of Rs. 296 to Kailasam has been entered in the Sales Book as Rs. 269.

e) An old furniture sold for Rs. 540 has been entered in the sales account as Rs. 450.

f) Goods taken by proprietor Rs. 75, have not been entered in the books at all.

(Madras B.Com)

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12. The accountant of Elixir Emporium could not agree the trial balance of his concern as at December 31st, 2006 The excess credit of Rs. 14,400 was placed to a Suspense Account. By January 31st, 2007 the following errors had been noticed.

a) There was a totalling error in the credit side of bank column of cash book. The total disclosed was Rs. 38,000 as against the correct total of Rs. 36,000.

b) While posting in the Sales Account from the Sales Day Book Rs. 13,000 has been entered as Rs. 23,000

c) Rs. 1,300 being repairs to buildings had been wrongly credited to Buildings Account.

d) Rs. 200 being miscellaneous income received was omitted to be posted in ledger.

Pass the rectifying entries in respect of the above and prepare Suspense Account.

(C.A. Entrance)

13. The Trial Balance of a firm is out by Rs. 2,788 (excess debit) and the amount was put to the credit of suspense account. The following errors are found subsequently to have been committed. Pass journal entries to correct them :

1) An amount to Rs. 1,000 was received from D on 31st March 2006 (the date of closing the books) but had been entered in the cash book on 4th April | 2006

2) The Return Inwards Book for March had been cast Rs. 100 short.

3) The purchase of an office table costing Rs. 300 had been passed through the Purchases Day Book.

4) Rs. 375 paid for wages to workmen for making showcases had been charged to Wages Account.

5) A purchases of Rs. 671 from A had been posted to the debit of his account as Rs. 617.

6) A cheque for Rs. 200 received from B has been dishonoured and was debited to discount a/c.

7) Value of the goods amounting to Rs. 100 returned by a customer and taken into stock, was not entered into the books of accounts.

8) A sale of Rs. 200 to C was credited to his account.

9) A sale of Rs. 1,000 has been passed through the Purchases Book. However, the customer's account has been correctly debited.

10) Rs. 2,000 paid as deposit for purchase of a car had been charged to Purchases account.

(C.A.I.I.B.)

14. A Ledger keeper of Acharya & Co. could not agree the trial balance.

He transferred an amount of Rs. 296 being excess of the debit side total to the Suspense Account. The following errors were subsequently discovered

1) Sales Book was overcast by Rs. 300.

2) Purchase of furniture worth Rs. 615 was passed through the purchases book.

3) An amount of Rs. 55 received from M/s Shah & Co., was posted to their account as Rs. 550.

4) Purchases returns book total on a folio was carried forward as Rs. 221 instead of Rs. 112.

5) Cash sales of Rs. 1,235 though duly entered in the cash book were posted to the sales account as Rs. 235.

6) Rest of the difference was due to a wrong total in the salaries account in ledger.

Pass the necessary journal entries and prepare Suspense account in the books of Acharya & Co.

(C.A.I.I.B)

15. Hint : Mistake in the salaries account total is Rs. 200.

Pass journal entries to rectify the following errors:

1) A cheque of Rs. 750 received for loss of stock by fire had been deposited in the proprietor's private bank account.

2) An item of purchase Rs. 151 was entered in the purchases book as Rs. 15 and posted to the suppliers account as Rs. 51.

3) A sales return of Rs. 500 was not entered in the financial accounts though it was duly taken in the stock book.

4) An amount of Rs. 300 was received in full settlement from a customer after he was allowed a discount of Rs. 50 but while writing the books, the amount received was entered in the discount column and discount allowed was entered in the cash column.

5) Bills receivable from Mr. A. of Rs. 1,000 was posted to the credit of bills payable account and also credited to the account of Mr. A.

16. **(C.A. Inter)**

The following errors were located in the books of a business concern after books were closed and suspense account was created in order to agree the trial balance.

1) An amount of Rs. 300 paid for the repair of furniture was debited to Furniture Account.

2) Sales Day Book was overcast by Rs. 200

3) A sale of Rs. 50 to Mr. X was wrongly debited to the account of Mr. Y.

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4) General Expenses Rs. 18 were posted in the ledger as Rs. 80.
5) A bill receivable of Rs. 600 received from P was passed through bills payable book.
6) Discount amounting to Rs. 120 from a creditor had been duly entered in his account but not posted to discount account.

As a result of above corrections the suspense account was closed. Prepare the suspense account and rectify the errors.

(B.Com. Poona)

(Ans. Opening balance of Suspense acount Rs. 18)

17. ⋆ An accountant has extracted the following trial balance as on 30th September 2006

	Dr. Rs.	Cr. Rs.
Cash in hand	200	
Capital		15,960
Drawings	14,000	
Sales and Purchases	1,54,860	2,06,070
Purchase Returns		2,100
Opening Stock	21,070	
Debtors and Creditors	18,190	20,780
Carriage on Purchases	1,090	
Carriage on Sales	1,840	
Rent and Rates	4,600	
Light and heat	750	
Postage & Telephone	910	
Sundry Expenses	1,900	
Cash at Bank	18,040	
Fixtures and Fittings	7,100	
	2,44,550	2,44,910

The auditors investigated the difference in trial balance and discovered the following errors in September 2006:-

i) The credit side of a debtor's account had been overcast by Rs. 100.
ii) An amount of Rs. 40 for carriage on sales had been posted in error to carriage on purchases.
iii) A credit note of Rs. 170 received from a creditor had been entered in the proper subsidiary book but no entry had been made in the creditor's account.

iv) Rs. 350 paid for repairs to the proprietor's residence had been charged to Sundry Expenses A/c.
v) A payment of an electricity bill of Rs. 210 was posted from the cash book to the postage and telephone account as Rs. 120.

You are required to :

a) Show the adjustments necessary to rectify the above errors.
b) Re-write the Trial Balance.

(C.A.I.I.B)

18. A trader failed to balance his trial balance and the difference was extended in a suspense accont. Later the following errors were discovered, give journal entries to rectify these errors and prepare the suspense account.

a) Goods amounting to Rs. 660 sold to Raju were correctly entered in sales book, but posted to Raju's account as Rs. 760.
b) A cash sale of Rs. 150 to kishore was posted to the credit of Kishore's account.
c) Goods worth Rs. 130 returned by Prabhu entered in Sales Book were posted therefrom to the credit of Prabhu's personal account.
d) Repairs bill for the proprietor's personal car Rs. 410 has been paid by the firm and debited to repairs account.
e) Sales returns book overcast by Rs. 1,000 and the total of folio in the same book Rs. 17,300 was carried forward as Rs. 17,030.

(B.Com. Kakatiya)

(Opening Balance of Suspense Account Cr. Rs. 420)

19. A trader having failed to agree the trial balance opened a suspense account and entered the difference of Rs. 76 (credit) there in the trial balance. The following errors were then subsequently discovered.

a) A credit item of Rs. 186 has been debited to the personal account of Rama as Rs. 78.
b) Rs. 150 written off as depreciation of furniture account has not been debited to depreciation account.
c) A discount of Rs. 90 allowed to Sam & Sons has been credited to them as Rs. 108.
d) The total of sales Returns Book has been under cast by Rs. 20.

Give entries, show suspense account and also the adjusted net profit, if the profit before discovering the errors was Rs. 3,000.

(B.Com. Nargarjuna)

(Ans. Adjusted Profit Rs. 2, 830)

20. There is difference in Trial Balance on 31st December, 2006 After showing the difference in Suspense Account and preparing final accounts, the profit is found to be Rs. 9,650. On verification the following errors are

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detected. Pass journal entries to rectify the errors, find out the difference in the trial balance and also the correct profit.

a) A discount of Rs. 37 allowed to a customer is debited to his account as Rs. 73.

b) The total of sales book is overcast by Rs. 100.

c) A purchase of goods worth Rs. 490 is posted to purchases account as Rs. 940.

d) A payment of Rs. 150 to proprietor's son is posted to general expenses account.

e) Goods worth Rs. 300 returned by a customer entered in Returns Outwards Book.

f) A discount of Rs. 50 received from a supplier not shown in the discount column of the Cash Book, thought it is posted to his account.

(B.Com. Nagarjuna & SKD)

(Ans. Opening Balance of suspense account (Cr) Rs. 510 Profit after adjustments Rs. 9,600)

21. After the preparation of Final Accounts of a Business unit the following errors were found. Pass necessary Journal entries to rectify them and ascertain the correct net profit after their rectification. The net profit before the rectification is Rs. 15,680.

a) The Sales Book was overcast by Rs. 250 and the purchases book was undercast by Rs. 150

b) Machinery purchased for Rs. 6,000 was posted in purchases account and wages paid Rs. 200 for the installation was included in the wages account.

c) Insurance premium paid on the life of the proprietor is posted in the Insurance account Rs. 300.

d) The proprietor took goods worth Rs. 350 for the personal use but no entry was passed for this amount.

e) Rs. 2,500 being the credit sales made to Venkat Rao was posted to the account of Vengal Rao.

f) Credit purchase made at the end of the year for Rs. 5,000. No entry was passed in the books and the stock was included in the closing stock.

(B.Com., Nagarjuna)

(Ans. Profit after adjustments Rs. 17,130)

22. ⋆ An accountant could not tally Trial Balance. The difference was temporarily placed to Suspense Account for preparing the final accounts. The following errors were later discovered:

a) The sale book was undercast by Rs. 50

b) Entertainment expenses Rs. 95, though entered in the Cash Book, were omitted to be posted in the ledger.

c) Discount column of the receipt side of Cash Book was wrogly added as Rs. 140 instead of Rs. 120.

d) Commission of Rs. 25 paid was posted twice, once to discount account and once to commission account.

e) A sale of Rs. 139 to Râmanlal though correctly entered in the sales book, was posted wrongly to his account as Rs. 193.

f) A purchase from Niranjan of Rs. 92, though correctly entered in the purchases book, was wrongly debited to his personal account.

You are required to :

i) Pass the necessary rectification entries.

ii) Prepare Suspense Account, and

iii). State the effect of each of the rectification on Profit. What would be the correct profit if the profit originally arrived at was Rs. 10,000?

(C.A.I.I.B.)

(Ans. Suspense Account Opening Balance Rs. 238 (credit No effect on the net profit)

23. The trial balance prepared by a book keeper showed a difference of Rs. 100.60 (excess credit) which was placed in a newly opened suspense account carried forward to the next year, when the following errors were detected :

a) Goods purchased for Rs. 9.90 had been posted to the credit of the supplier as Rs. 99.

b) Rs. 7.50 received as discount from creditor was duly entered in his account, but it was omitted to be posted to discount account.

c) Sale of furniture for Rs. 140 had been entered in the sales book.

d) Rs. 90 due from a customer were omitted to be taken in schedule of sundry debtors.

e) Goods to the value of Rs. 300 returned by a customer were taken into the stock but no entry was made in the books.

f) Rs. 35.50 entered in the sales returns book had been posted to the debit of the customer who returned the goods.

Give journal entries necessary to rectify the above errors and prepare the Suspense A/c. Also state the effect of the errors on the last year's Profit and Loss Account.

(Company Secretaries)

(Ans. Last years Profit will be less by Rs. 432.50)

24. From the books of a trader for the year 2006 you find the following errors. Pass rectification entries and prepare a statement showing the effect of rectification on profit.

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a) An amount of Rs. 200 being rent paid in advance in the year, had not been brought forward on the rent account.

b) Goods Rs. 125, retured to Satish Bros. were recorded in Returns Inwards Book. as Rs. 152 and from there it was posted to the credit of Satish Bros. Account.

c) Paid his acceptance to Lila Ram for Rs. 7,600 was posted to the debit of Sita Ram as Rs. 6,700.

d) Goods purchased from Gupta Rs. 3,250 entered in the Sales Book as Rs. 3,520.

(I.C.W.A. Inter-adapted)

(Ans.As a result of rectificatin the net profit will decrease by Rs. 6,60

25. ★ The following errors were committed by the accountant of Geeta Dye Chemicals:

a) Cash Rs. 350 paid to Triman Chemicals posted as Rs. 530.

b) Purchase of stationery worth Rs. 150 remained unposted from the Cash Book.

c) Rs. 250 paid for purchase of new office furnitre was charged to office expenses a/c.

d) Credit Sales to Trivedi & Co. of Rs. 300 was posted to the credit of their account.

e) A purchase of Rs. 420 from Mantri & Co. was passed through the Sales Day book as Rs. 240.

How would you rectify these errors assuming that :

i) They were detected before preparing trial balance:

ii) They wer detected after preparing trial balance, but before preparing final accounts (the difference being taken to suspense account).

iii) They were detected after preparing final accounts (Narration to journal entries not required).

(C.A.I.I.B

Chapter-5
FINAL ACCOUNTS

One of the main objects of maintaining accounts is to find out the Profit or loss made by the business during a period and to ascertain the financial position of the business as on a given date. In order to know the Profit or Loss made by the business, Trading and Profit and Loss Account is prepared. The position of the business on the last date of the financial year will be revealed by the Balance Sheet. The Trading and Profit and Loss Account and Balance Sheet prepared by the business-man at the end of the trading period are called 'Final Accounts'. They are called 'Final Accounts' due to the following reasons:

1) They are prepared Finally, i.e. after all the books of accounts are closed and trial balance is extracted.

2) They are prepared at the end of the Trading Period.

3) They show the Final results of a business.

Before discussing the preparation of final accounts, it is necessary to know the distinction between capital and revenue items. This distinction is necessary because revenue items are shown in the Trading and Profit and Loss Account and capital items are shown in the Balance Sheet.

Capital Expenditure

Capital expenditure is that expenditure which results in the acquisition of an asset or which results in an increase in the earning capacity or which affords some other advantage to the firm. In brief, if the benefits of an expenditure are expected to accrue for a long time, it is called capital expenditure. Examples of capital expenditure are-expenditure for the acquisition of land, building, machinery etc.

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Revenue Expenditure

Any item of expenditure whose benefit expires within the year or expenditure which merely seeks to maintain the business or to keep assets in good working condition is revenue expenditure. Examples are, expenses incurred in the normal course of business such as expenses of administration, expenditure incurred in manufacturing and selling goods etc.

Deferred revenue expenditure

A heavy expenditure of revenue nature incurred for getting benefits over a period of years is called deferred revenue expenditure. Preliminary expenses, exceptionally heavy repairs, heavy advertisement, expenditure incurred in moving the business to a more convenient place etc., are-regarded as deferred revenue expenditure. They are spread over a period of three to five years. Every year, a part of such expenditure is charged to Profit and Loss Account and the unwritten off portion is shown in Balance Sheet till it is completely written off.

Capital and Revenue Receipts

Amount realised by way of loan, sale of permanent or fixed assets etc is capital receipt. Amount realised on the sale of goods in which the proprietor deals, interest on investments etc. are revenue receipts.

For the purpose of preparation of Final Accounts, business establishments have been classified into (a) Trading concerns and (b) Manufacturing concerns. Trading concerns are those which purchase the finished goods from market and sell it at profit. They do not exercise any manufacturing activity. Such concerns prepare Trading Account, Profit and Loss Account and Balance Sheet. The manufacturing concerns are those who purchase raw-materials and manufacture certain goods. Such concerns prepare Manufacturing Account in addition to Trading and Profit and Loss Account.

Trading Account

Trading Account is prepared mainly to know the 'Profitability' of the goods bought and sold by the businessman. It shows the result of trading i.e buying and selling of goods called 'Gross Profit or Gross Loss'.

The difference between the sales and cost of goods sold is Gross Profit or Gross Loss. Cost of the goods sold is ascertained by adding Opening Stock, Purchses, direct expenses for purchase of goods and deducting there from closing stock of the goods. In trading Account, in addition to opening stock and purchases, all other expenses incurred in bringing the goods to the Godown of the firm and making them ready for sale are charged. The general rule is that this account is debited. With all expenses incurred in bringing the goods to their present location and condition. However, administrative, selling and distribution and financial expenses are not taken in Trading Account.

Trading Account is prepared in 'T' form, just like any other account except that Date and Journal Folio Columns are not provided. As the Trading Account shows the results of operations over a period, the heading will be "Trading Account for the year (or period) ended ....."

Opening Stock, purchases and other Direct Expenses are taken on the Debit side and Sales and Closing Stock are taken on the credit side. The balance between the two sides is Gross Profit or Gross Loss. The excess of credit side over Debit side is called 'Gross Profit' and the excess of Debit side over credit side is called 'Gross Loss'. 'Gross Profit' or 'Gross Loss' is transferred to Profit and Loss Account. The Format of Trading Account is given below.

Trading Account for the year ended.....

Dr.		*Rs.*		*Cr.*		*Rs.*
To Opening Stock		x x	By Sales	x x		
" Purchases	x x		Less: returns	x x	x x	
Less: returns	x x	x x	" Closing Stock		x x	
" Carriage Inwards			" Gross Loss			
(or Carriage' on Purchases)		x x	(if any) transfered			
" Freight, Duty and			" to Profit & Loss A/c		x x	
Clearing Charges		x x				
" Direct, Productive						
or Manufacturing Wages		x x				
" Excise Duty, Octroi		x x				
" Factory Rent & Insurance		x x				
" Motive Power		x x				
" Coal, Gas & Water		x x				
" Factory Lighting		x x				
" Factory Expenses		x x				
Gross Profit transferred						
to Profit & Loss A/c		x x				
		x x				x x

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Trading Account Items

DEBIT SIDE

1. **Opening Stock:** This is the stock of goods at the beginning of the year. This item will be given in Trial Balance. This item is shown as first item on the debit side of the Trading Account.
2. **Purchases:** The purchases Account appears in Trial Balance and shows the total purchases of goods, both cash and credit, made during the accounting period. In respect of purchases the following points should be noted.
   (i) Purchase of capital assets should not be included in purchases. If it is already included in purchases, it should be deducted.
   (ii) If the goods are purchased for personal use of the proprietor and included in purchases, then it should be excluded.
   (iii) Goods received on consignment, or on Approval or on hire purchase then these goods should be excluded from purchases.
   (iv) Purchases Returns should be deducted from purchases on the debit side and net amount should be shown in outer column.
3. **Freight, Carriage Inwards:** It is the expenditure incurred for bringing the goods to the godown and should be debited to Trading Account. However if freight or carriage is paid on the purchase of any asset like Machinery, it should be added to the cost of the asset and not debited to Trading Account.
4. **Manufacturing or Productive or Direct Wages:** These are the wages paid to the workers for manufacturing the goods or for making them in saleable condition. Such wages should be debited to Trading Account. If unproductive or Indirect Wages are given in trial balance, then such wages should not be taken in Trading Account, but should be taken in Profit and Loss Account. If it is not stated whether wages are direct or indirect, then it should be assumed as direct and taken in Trading Account.

Import Duty/Customs Duty/Excise Duty:

Customs Duty is levied on the goods imported and exported, Excise Duty is imposed on goods produced in the country. If customs Duty or Duty on purchases is given in trial balance, it should be debited to Trading Account.

Dock Dues and Clearing Charges: These are expenses paid to Dock Authorities to take delivery of imported goods and should be debited to Trading A/c.

Octroi: When goods are purchased within certain municipal limits, generally Octroi duty has to be paid. It is debited to Trading Account.

Fuel and Power: Coal used in the boiler or electricity consumed to run the machines will be included under this item and should be debited to Trading A/c.

Factory Rent and Rates: The rent paid for factory premises and Municipal taxes (which are called Rates) or charges for water etc should be debited to trading A/c.

Factory Lighting: Electricity charges for providing lighting in the Factory to run fans should be debited to Trading Account.

CREDIT SIDE:

Sales: Sales Account will show credit balance in Trial Balance. Sales include both cash and credit sales. From sales, sales Returns showing debit balance, should be deducted and net amount should be shown in outer column. Goods sold on approval should not be included in sales, but included in closing stock at-cost.

Closing Stock: It is the value of goods which remain unsold at the end of the year. At the end of the accounting period, a list of all unsold goods is prepared, counted or weighed as the case may be, value attached to each item and total value is ascertained. Closing Stock is valued at cost price or market price, whichever is less. Closing stock is generally not given as an item of trial balance, but recorded in the books by passing an adjustment entry.

Profit and Loss Account

The Profit and Loss Account is an account which shows the net Profit or net loss of a business for a particular period. All indirect expenses such as. Administrative or Management expenses, Selling and Distribution Expenses, financial expenses and other items such as depreciation, provisions etc are taken on the debit side. Gross Profit and other items of income such as interest received, discount received etc. are taken on the credit side. The difference between two sides is either Net Profit or Net Loss which is transfered to Capital Account. Profit and Loss Account will appear as follows.

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Profit and Loss Account
For the year ended.....

Dr.

	Rs.		Rs.
To Salaries (or salaries) and wages)		By Gross Profit b/d	
" Rent, Rates and taxes		" Interest Received	
" Lighting		" Discount Received	
" Printing and Stationery		" Commission received	
" Postage and Telegrams		" Rent received	
" Telephone charges		" Miscellaneous Receipts	
" Legal Expenses		" Net loss, if any, transferred to Capital Account	
" Audit Fees			
" General Expenses			
" Advertisement			
" Traveller's Salaries and commission			
" Packing Expenses			
" Bad Debts			
" Provision for Doubtful Debts			
" Provision for Discount on Debtors			
" Depreciation			
" Repairs and renewals			
" Discount allowed			
" Carriage Outwards			
" Interest on loan			
" Interest on capital			
" Loss by fire or theft			
" Charity			
" Net Profit transferred to Capital Amount			

Balance Sheet :

Balance Sheet is prepared to know the financial position of business on

a particular date. It is a statement which shows the assets and liabilities of a business as on a particular date. It shows what a business owns and what it owes. This statement is prepared from real and personal accounts left after the nominal accounts are transferred to Trading and Profit and Loss Account. Balance Sheet is a 'Statement' and not an 'Account'. It does not have 'Debit' and 'Credit' sides. It is divided into two sides, i.e. left hand side and the right-hand side. The left hand side is called the liabilities side and the right hand side is called the assets side. All the liabilities and capital are entered on the liabilities side and all property and assets are entered on the assets side. If all liabilities and the capital of the proprietor and all assets are property recorded then the two sides of the Balance Sheet must tally or agree. The assets and properties will be just equal to Capital and Liabilities because either they are owned or financed by someone. As we have seen earlier Assets must be equal to Liabilities and Capital, the two sides of the Balance Sheet must be equal. One more point to be noted regarding Balance Sheet is that it is prepared as on a particular date, usually the last date of the accounting. For this reason the words 'as at' or 'as on' are used in case of Balance Sheet. Trading and Profit and Loss Account is prepared for 'the year or period ending' whereas Balance Sheet is prepared 'as on' or 'as at'.

The assets and liabilities of a business are shown in the Balance Sheet in certain order or Form. The arrangement of the assets and liabilities in the Balance Sheet is called 'marshalling' or grouping of assets and liabilities. There are two usual ways in which the assets and liabilities are shown in the Balance Sheet namely (i) in the order of liquidity and (ii) in order of permanency. In case of first method the assets which can be easily converted into cash are written first and then other assets which cannot be easily realised are entered. 'Liquidity' means the ease with which the assets may be converted into cash. Similarly, the liabilities which are payable immediately or in near future are written first and then the liabilities which are payable after sometime are written next. Under the second method the most permanent assets and are not meant for sale are written first, assets which change frequently are written next. As regards liabilities, capital and long term liabilities are shown first and the liabilities which are immediately payable are written in the end. Though there is no hard and fast rule regarding the order of arrangement of assets and liabilities, it is preferable to follow the same order of arrangement for both assets and liabilities. A specimen form of Balance Sheet (in order of liquidity) is given below.

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Balance Sheet

As on .....

Liabilities	Amount Rs.	Assets	Amount Rs.
Sundry Creditors		Cash in hand	
Bills Payable		Cash at Bank	
Creditors for outstanding Expenses		Outstanding Income	
Income received in advance		Investments	
Loan on Mortgage		Bills Receivable	
Bank Loan or overdraft		Sundry Debtors	
Reserves		Closing Stock	
Capital :		Prepaid Expenses	
Opening Balance		Loose Tools	
Add Net Profit		Advances given	
Add Interest on Capital		Furniture, Fixtures and Fittings	
Less Drawings		Patents & Trade Marks	
Less Loss, if any		Vehicles	
		Leasehold property	
		Land and Buildings	
		Plant and Machinery	
		Goodwill	

Classification of assets and liabilities:

Assets are classified as follows:

1) **Fixed Assets:** Fixed assets are acquired by a business for the purpose of providing service to the business and not held for resale in the normal course of trading. They are acquired for use in the operation of a business for relatively long period of time. They are used for the production of goods and services. Land and Buildings, Furniture, Machinery etc. are examples of fixed assets. However, if a particular item is acquired for resale in the normal course of business, it is not included in fixed assets. For example furniture purchased for resale by a furniture dealer is treated as purchase of goods and not of fixed asset. Fixed assets appear in its Balance Sheet at their historical costs less accumulated depreciation

2) **Current Assets or floating assets:** Those assets which are converted

into cash in the normal course of business within a short-period are called current assets. Cash, debtors, stock etc. are examples of current assets. They are called 'floating assets' because they change from one form to another.

3) **Tangible assets:** Tangible assets have physical identity and include items which can be seen and touched like land and building, cash, machinery etc.

4) **Intangible assets:** Intangible assets are those assets which have value but cannot be seen or touched. They are owned and used in the operation of business but don't have physical existence. Goodwill, patents and trade marks etc. are examples of intangible assets.

5) **Fictitious assets:** They are the items appearing on assets side of balance sheet but do not have any value. Profit and Loss A/c (Debit balance), Discount on Issue of shares and debentures, deferred revenue expenditure like advertisement suspense a/c etc. are examples of fictitious assets. Strictly speaking they are not assets, but they are shown on the assets side because they represent past losses or expenses but not yet writtenoff

Wasting Assets are these assets which are exhausted in the course of working of businesses, examples mines, quarries.

Liabilities are broadly classified into two categories namely current liabilities and fixed liabilities.

Current Liabilities: They are also called 'Short Term' Liabilities. These are the liabilities which are payable within a short period, ordinarily in a year. Trade creditors bills payable, outstanding expenses etc. are examples of current liabilities.

Fixed Liabilities. All liabilities other than current liabilities come within this category. Liabilities which do not become due for payment in the near future will be called fixed liabilities or long-term liabilities.

Contingent Liabilities: Contingent liability refers to an obligation to pay on the happening or non-happening of an uncertain event. It is not an actual liability, therefore it is not recorded in balance sheet. They appear as a foot-note-to the balance sheet. For example, drawer of a bill is liable for bills discounted only when the bill is dishonoured on the due date.

Difference between Trial Balance and Balance Sheet

(b) The purpose of preparing a Trial Balance is to check the arithmetical accuracy of account books, but balance sheet is prepared to know the

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financial position of the business.

(2) In Trial Balance all types of accounts namely, personal, real and nominal accounts are taken, whereas in Balance Sheet only real and personal accounts appear.

(3) Trial Balance does not contain information about net profit/loss. However, details of capital account in the Balance Sheet provide information about net Profit/Loss.

(4) In Trial Balance, all accounts are divided into two catgories, namely accounts with debit balances and accounts with credit balances. Debit accounts and credit accounts are listed separately. In Balance Sheet, balances of ledger accounts are divided into balances of assets and liabilities. Assets are listed on one side and capital and liabilities are sham on the other side.

(5) For completing the accounting process, it is necessary to prepare Balance Sheet, but preparation of trial balance, though desirable, is not always necessary.

(6) Trial Balance can be prepared at any stage, without making adjustments, but balance sheet is prepared after making adjustments regarding outstanding, prepaid incomes, expenses etc.

(7) Generally trial balance does not contain closing stock, but balance sheet does.

(8) Normally, Balance Sheet is prepared at the end of the trading period, but trial balance is prepared very often and it may be monthly, quarterly or half-yearly.

Distinction between Profit & Loss Account and Balance Sheet

(1) Profit and Loss Account itself is an account where as Balance Sheet is a statement of assets and liabilities.

(2) Profit and Loss Account shows the profit earned or losses suffered during an accounting period, Balance sheet discloses the financial position of the business as on a particular date.

(3) Profit and Loss account is prepared for an accounting period, where as balance sheet is prepared as at the last day of the accounting period.

(4) Accounts which are transferred to Balance Sheet do not lose their identity and become opening balance for next period, whereas, those accounts which are transferred to profit and loss account are closed and cease to exist.

Closing Entries

The nominal accounts are closed by transfer to either Trading or Profit and Loss Account as the case may be. Journal entries required to transfer the nominal account to Trading account or Profit and Loss account are called 'Closing entries'. These entries are as follows:

1) For Closing Opening stock, purchases A/c. etc.

	Trading Account	Dr.
	To Opening stock	
	To Purchases	
	To Sales Returns	
	To Other direct expenses	

2) For closing Sales, Purchases returns etc.

	Sales Account	Dr.
	Purchases Return A/c	Dr.
	Closing Stock A/c	Dr.
	To Trading Account	

3) For Closing Trading Account (i.e. Transfer of Gross Profit to Profit and Loss Account)

	Trading Account	Dr.
	To Profit and Loss Account	

In case of gross loss, the above entry is reversed.

4) For closing all indirect office and selling expenses

	Profit and Loss Account	Dr.
	To Indirect office and selling expenses (individually)	

5) For closing all gains and incomes

	Each Income Account	Dr.
	To Profit & Loss Account	

6) For closing the Profit and Loss Account

	Profit and Loss Account	Dr.
	To Capital Account	

Note:- In case of Loss, the above entry is reversed.

Adjustments

While preparing the Profit and Loss account for a particular period it is essential that expenses, losses, incomes and gains relating only to that period are considered. For example, if accounts are prepared for the year 1980, then no income, gain, expense or Loss relating to 2005 or 2004 should be included in Profit and Loss account for the year 2006

For ascertaining the true trading result of a firm it is necessary that all items of income and revenue expenditure pertaining to the period of

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accounting must be recorded, irrespective of the fact whether they are received or not, paid or not, received in advance or paid in advance. Apart from this there are certain other items such as depreciation, provision for bad and doubtful debts, interest on capital etc., which must be adjusted before the correct profit can be ascertained. The following are some of the usual adjustments which are to be made at the end of the accounting period.

1. Closing Stock

The unsold stock of goods remaining at the end of the accounting period is termed as "closing stock". The adjustment entry is

Closing Stock A/c. Dr.
To Trading Account.

The two fold effect of the above adjustment will be (1) it will appear in Trading Account on the credit side and (2) on the assets side of the Balance Sheet.

Sometimes Opening and closing stock are adjusted through Purchases Account. In such a case there will not be any opening stock in Trial Balance. Adjusted Purchases should be taken on the debit side of the Trading Account and Closing Stock should be shown on the assets side of the Balance Sheet. In this case closing stock will not be shown on the credit side of the Trading Account.

2. Outstanding expenses

Expenses which have become due but not paid at the end of the financial year are called outstanding expenses. The adjustment entry is

Expense Account Dr.
To Outstanding Expenses A/c.

The two fold effect is (1) it will be added to the concerned expense account, as the case may be and (2) Outstanding Expenses will be shown on the liabilities side of the Balance Sheet.

Outstanding Wages or Salaries etc., if given in trial balance will appear only once, i.e., on the liabilities side of the Balance Sheet.

3. Unexpired or prepaid expenses

Expenses which have been paid in advance i.e., whose benefit will be available in future are called unexpired or prepaid expenses.

Adjustment Entry is:
Prepaid Expenses Account Dr.
To Expenses Account

The two fold effect of the adjustment is (1) it will be deducted from the concerned expense account in Profit and Loss Account and (2) shown on the assets side of the Balance Sheet as Prepaid Expenses.

If Prepaid Insurance is given in Trial Balance, it will appear only in Balance Sheet on the assets side.

4. Outstanding or accrued income

That income which is earned but not received during the accounting year is called accrued income. Adjustment Entry is :

Accrued Income Account Dr.
To Income Account

The two-fold effect will be (1) it will be added to the concerned income account in Profit and Loss Account on the credit side and (2) shown in the Balance Sheet on the assets side as accrued income.

If Interest Receivable or Accrued Interest is given in trial balance then it will appear only in Balance Sheet on the assets side.

5. Income received in Advance

Income received but not earned during the accounting period is called income received in advance. Adjustment Entry is :

Income Account Dr.
To Income Received in Advance Account

The two fold effect is (1) it is deducted in profit and loss account on the credit side from the concerned income account and (2) shown in balance sheet on the liabilities side as income received in advance.

If any income received in advance is given in trial balance, then it will appear only in Balance Sheet on the liabilities side.

6. Depreciation

Depreciation is the reduction in the value of an asset due to wear and tear, lapse of time etc. The adjustment entry is :

Depreciation Account Dr.
To Asset Account

The two fold effect is (1) depreciation is shown on the debit side of profit and Loss Account and (2) it is shown as a deduction from the concerned asset account in Balance Sheet.

If Depreciation on Machinery etc, is given in Trial Balance, then it will appear only in Profit and Loss Account on the Debit side.

It is advisable to ignore depreciation on addition or sale of asset if the date of transaction is not given.

7. Interest on Capital

Some times interest is provided on the capital invested by the proprietor in the business. It is treated as business expense. The adjustment entry is:

Interest on Capital A/c Dr.
To Capital Account

The two fold effect is (1) it is shown on the debit side of Profit & Loss account and (2) the amount of interest on capital is added to the capital on the liabilities side.

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accounting must be recorded, irrespective of the fact whether they are received or not, paid or not, received in advance or paid in advance. Apart from this there are certain other items such as depreciation, provision for bad and doubtful debts, interest on capital etc., which must be adjusted before the correct profit can be ascertained. The following are some of the usual adjustments which are to be made at the end of the accounting period.

1. Closing Stock

The unsold stock of goods remaining at the end of the accounting period is termed as "closing stock". The adjustment entry is

Closing Stock A/c. Dr.
To Trading Account.

The two fold effect of the above adjustment will be (1) it will appear in Trading Account on the credit side and (2) on the assets side of the Balance Sheet.

Sometimes Opening and closing stock are adjusted through Purchases Account. In such a case there will not be any opening stock in Trial Balance. Adjusted Purchases should be taken on the debit side of the Trading Account and Closing Stock should be shown on the assets side of the Balance Sheet. In this case closing stock will not be shown on the credit side of the Trading Account.

2. Outstanding expenses

Expenses which have become due but not paid at the end of the financial year are called outstanding expenses. The adjustment entry is

Expense Account Dr.
To Outstanding Expenses A/c.

The two fold effect is (1) it will be added to the concerned expense account, as the case may be and (2) Outstanding Expenses will be shown on the liabilities side of the Balance Sheet.

Outstanding Wages or Salaries etc., if given in trial balance will appear only once, i.e., on the liabilities side of the Balance Sheet.

3. Unexpired or prepaid expenses

Expenses which have been paid in advance i.e., whose benefit will be available in future are called unexpired or prepaid expenses.

Adjustment Entry is:

Prepaid Expenses Account Dr.
To Expenses Account

The two fold effect of the adjustment is (1) it will be deducted from the concerned expense account in Profit and Loss Account and (2) shown on the assets side of the Balance Sheet as Prepaid Expenses.

If Prepaid Insurance is given in Trial Balance, it will appear only in Balance Sheet on the assets side.

4. Outstanding or accrued income

That income which is earned but not received during the accounting year is called accrued income. Adjustment Entry is :

Accrued Income Account
To Income Account Dr.

The two-fold effect will be (1) it will be added to the concerned income account in Profit and Loss Account on the credit side and (2) shown in the Balance Sheet on the assets side as accrued income.

If Interest Receivable or Accrued Interest is given in trial balance then it will appear only in Balance Sheet on the assets side.

5. Income received in Advance

Income received but not earned during the accounting period is called income received in advance. Adjustment Entry is :

Income Account Dr.
To Income Received in Advance Account

The two fold effect is (1) it is deducted in profit and loss account on the credit side from the concerned income account and (2) shown in balance sheet on the liabilities side as income received in advance.

If any income received in advance is given in trial balance, then it will appear only in Balance Sheet on the liabilities side.

6. Depreciation

Depreciation is the reduction in the value of an asset due to wear and tear, lapse of time etc. The adjustment entry is :

Depreciation Account Dr.
To Asset Account

The two fold effect is (1) depreciation is shown on the debit side of profit and Loss Account and (2) it is shown as a deduction from the concerned asset account in Balance Sheet.

If Depreciation on Machinery etc, is given in Trial Balance, then it will appear only in Profit and Loss Account on the Debit side.

It is advisable to ignore depreciation on addition or sale of asset if the date of transaction is not given.

7. Interest on Capital

Some times interest is provided on the capital invested by the proprietor in the business. It is treated as business expense. The adjustment entry is:

Interest on Capital A/c Dr.
To Capital Account

The two fold effect is (1) it is shown on the debit side of Profit & Loss account and (2) the amount of interest on capital is added to the capital on the liabilities side.

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8. Interest on Drawings

If interest on capital is charged, it is but natural that interest on drawings should be charged to the proprietor. Interest on drawings is an income of the business. The adjusting entry is :

Capital (or Drawings) Account Dr.
To Interest on Drawings account

The two fold effect is (1) it will be shown as income on the credit side of the Profit and Loss Account and (2) the amount of interest on drawings is added to drawings, which is ultimately deducted from capital.

9. Bad Debts

Debts which are irrecoverable are called bad debts. The adjustment entry is :

Bad Debt Account Dr.
To Debtor's Account

The two fold effect is (1) it is shown on the debit side of Profit & Loss Account and (ii) shown on the asset side of the Balance Sheet by way of deduction from sundry debtors.

Bad debts given in trial balance will appear only in Profit and Loss Account on the debit side.

10. Provision for Bad and Doubtful Debts

The object of making provision for bad debts is to bring down balance of debtors to its true position. It is based on the principle that all anticipated losses should be provided before arriving at correct profit. The amount of doubtful debts is calculated either by studying the position of each debtor individually and adding up the amount due from financially weak debtors or by calculating it at some percentage on sundry debtors which is fixed on the basis of past experience. It is to be noted that no provision for bad debts is created on debtors which are definitely good or definitely bad. Provision for Bad Debts is created by passing the following adjusting entry:

Profit and Loss Account Dr.
To Provision for Doubtful Debts.

It should be noted that Sundry Debtors Account should not be credited with the amount of provision for doubtful debts on sundry debtors because loss has not actually taken place, it is only a probable loss.

The provision for doubtful debts given in Trial balance is the provision made during the last year. It is also called as 'Old Provision' or 'existing provision'. The provision for doubtful debts given in adjustment is current year provision. It is also called as 'New Provision' or 'Provision required'. The treatment will be as follows :

Dr. Profit & Loss Account Cr.

To Provision for Doubtful Debts :		
New Provision (or Provision required)	x x	
Add : Bad Debts	x x	
	x x	
Less : Existing Provision (or old provision)	x x	
		x x

In case the Old provision (or existing provision) is more than the total of New provision and Bad Debts it will be shown on the credit side of Profit and Loss A/c. In every case New Provision for doubtful debts will be deducted from S. Debtors.

Balance Sheet

Assets		
S. Debtors	x x	
Less Provision for Doubtful Debts (New Provision)	x x	x x

11. Provision for Discount on Debtors

It is a normal practice to allow discount to customers for prompt payment. The adjustment entry for making provision is :

Profit & Loss A/c Dr.
To Provision for Discount on Debtors

The two-fold effect is (1) Provision for Discount on Debtors is shown on the debit side of Profit & Loss Account. (2) It is deducted from Sundry Debtors on the assets side of the Balance Sheet.

Note : Provision for Discount on Debtors should be calculated on Sundry Debtors after deducting further bad debts given in adjustments and new provision for doubtful debts.

12. Reserve for Discount on Creditors

If the business is run on a sound basis then it will make payments to its creditors as early as possible. This practice earns both goodwill and discount for the business. If the goods are purchased in one accounting period and payment is to be made in the next accounting period within the scheduled period, the discount likely to be earned is the income of the period in which the goods were purchased. Such discount on creditors is an anticipated profit, so reserve for discount on creditors is made by passing the following entry:

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Reserve for Discount on Creditors A/c Dr.
To Profit and Loss Account

The two-fold effect of this reserve will be (i) it is shown on the credit side of Profit and Loss Account and (ii) shown on the liabilities side of the Balance Sheet by way of deduction from sundry creditors.

13. Accidental Losses

Sometimes business assets may be lost due to fire, theft or other reasons. A provision has to be made for such losses. A distinction must be made between loss of other assets and loss of stock in the trade. If other assets are destroyed by fire, then the entry is:

Loss by Fire Account Dr.
To Asset Account

The two-fold effect is (i) loss by fire is debited to Profit and Loss Account (ii) the amount is deducted from the particular asset account on the asset side of the Balance Sheet.

If stock in trade has been lost, the entry is :

Loss by Fire Account Dr.
To Trading Account

The above entry is passed irrespective of the fact, whether the goods were insured or not. The trading account is credited with the value of the goods in order to find out the proper gross profit. If the goods had not been destroyed, they would have been included in the closing stock and the gross profit would have been higher. The treatment of the loss of goods by fire in profit and loss account and balance sheet depends upon the fallowing considerations.

a) Goods are insured and full claim is admitted by the insurance company. The entry is :

Insurance Co. A/c Dr.
To Loss by Fire Account

i) Loss of goods by fire is shown on the credit side of Trading Account and

ii) Amount Due from Insurance Company is shown on assets side of the Balance Sheet.

b) Goods are insured and Insurance Company admits a part of the claim.

Insurance Co. A/c Dr. (with the amount of claim accepted)
Profit and Loss A/c. Dr. (with the amount of claim not accepted)
To Loss by Fire A/c. (Total loss)

Treatment (i) Loss of goods by fire is shown on the credit side of Trading Account (ii) The claim accepted by the insurance company is shown on the

assets side of the Balance Sheet as Amount due from Insurance Company (iii) Amount of claim not accepted is a loss so it will be shown in Profit and Loss Account.

c) When goods are not insured: If the goods which are destroyed are not insured the total loss is to be borne by business. The entry is :

Profit and Loss A/c Dr.
To Loss by Fire A/c.

The two fold effect is (i) loss of goods by fire will appear on the credit side of Trading account and (ii) shown on the debit side of the Profit and Loss Account. There will not be any effect in Balance Sheet.

14. Goods distributed as free samples

Sometimes, to promote the sale of goods they are distributed as samples. The entry is:

Advertisement A/c. Dr.
To Purchases A/c.

The two fold effect is (i) it is shown on the debit side of Profit and Loss Account and (ii) deducted from purchases in trading account on the debit side. There is no effect on Balance Sheet.

15. Goods withdrawn for personal use

When goods are withdrawn by the proprietor for personal use, the entry is:

Drawings Account Dr.
To Purchases Account

The two fold effect is (i) Value of goods withdrawn by the proprietor should be deducted from purchases account on the debit side and (ii) deducted from capital on the liabilities side.

16. Commission to manager based on net profits

Sometimes, to encourage the manager, he is paid commission on profits, in addition to salary. Such commission may be fixed on (a) Net Profits before charging his commission or (b) Net Profit after charging such commission. In either case, the two fold effect will be (i) Commission to manager is taken on the debit side of the Profit and Loss Account and (ii) shown on the liabilities side of the Balance Sheet as commission payable to manager.

Calculation of Commission:

From the income appearing on the credit side of profit and loss account, all expenses and losses on the debit side should be deducted, the balance left is called net profit before commission. The formula for calculating commission is :

a) If commission is payable on net profit before charging such commission:

$$\text{Commission} = \frac{\text{Rate}}{100} \times \text{Net Profit before commission}$$

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b) If commission is payable on net profit after charging such commission

$$\text{Commission} = \frac{\text{Rate}}{100+\text{Rate}} \times \text{Net Profit before commission}$$

17. Goods sold on sale or return, wrongly treated as sales

When goods are sold on approval or sale or return basis, these should not be treated as actual sales unless customer informs his intention of retaining the goods. To rectify the mistake of treating such sales as actual sales, the following entry should be passed:

Sales Account Dr.
To Customer's Account

The two fold effect will be (i) sales in trading account should be reduced and (ii) Sundry Debtors will also be reduced by the value of the sales.

But the goods sold on approval should be treated as stock. The value of closing stock both in Trading account and also in Balance Sheet should be increased. Such stock should be taken at cost price or market price whichever is less. The entry is :

Stock on Approval A/c Dr.
To Trading Account

18. Goods received but not recorded in books

Sometimes, goods are purchased on credit and included in stock, but entry for the purchase of goods is omitted to be recorded in the books. The entry is:

Purchases Account Dr.
To Creditor's Account

The effect of the above entry will be (i) Purchases in Trading account will be increased and (ii) creditors on the liabilities side will also be increased by the same amount.

19. Sale of asset treated as sale of goods

When an asset is sold, particular asset account should be credited. But, if by mistake it is treated as sales, then it should be adjusted by making the following entry:

Sales Account Dr.
To Asset Account

The effect of the above adjustment is that sales in Trading account and Asset Account in Balance Sheet will be reduced by an equal amount.

20. Erection charges paid on machinery debited to wages account

Any expenditure on erection of machinery should be debited to the machinery account. If it is debited to wages account, it is to be rectified by passing the following entry:

Machinery Account Dr.
To Wages Account

The effect of the above entry is that Wages Account in trading account will be reduced and Machinery Account in Balance Sheet will be increased by an identical amount.

21. Reserve Fund

Reserve found is an appropriation of net profit for strengthening the financial position of the business. The following entry is passed for creation of reserves.

Profit and Loss Account Dr.
To Reserve Fund

The double effect is this entry will be (i) it is shown on the debit side of Profit and Loss Account (ii) shown on the liabilities side of the Balance Sheet.

Treatment of certain items given in Trial Balance.

1. **Trade Expenses and general Expenses.**
Trade expenses mean office and general or sundry expenses. Hence, trade expenses should be taken on the debit side of profit and loss A/c. But, if both trade expenses and office or general or sundry expenses are given in trial balance, then trade expenses should be taken on debit side of trading account on the assumption that they are direct expenses on purchase of goods and general expenses or sundry expenses should be taken in the Profit and Loos A/c Debit side on the assumption that they are indirect expenses incurred in office.

2. **Salaries and Wages**
If both salaries and wages are grouped into one item wages is treated as non-productive and it is to be taken to profit and loss account. However, if **wages and salaries** appear in trial balance then salaries is treated as productive and this item is taken to Trading Account.

3. **Adjusted Purchases**
Some business concerns instead of showing opening stock, purchases and closing stock separately in trading account, prefer to show one consolidated item called 'Adjusted Purchases'. Adjusted purchases is arrived as: opening stock plus purchases less closing stock. In such a case opening stock will not appear in trial balance, but closing stock will appear as debit item in trial Balance. Adjusted purchases in taken on the Debit side of trading account and closing stock is taken only in Balance sheet.

4. **Life Insurance Premium, Income from personal Investments:**
Life Insurance premium is the premium paid on the life insurance policy

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of the proprietor. It is not a business expense. It is treated as drawings and should be deducted from capital.
Income from personal investment is treated as additional capital of the proprietor and should be added to the capital.

5. **Income-Tax, Advance Income-Tax and Interest on Advance Income-Tax**

In case of sole-trading concerns, Income-Tax is a tax on the total income of the proprietor and not on his business income. If Income-Tax is given in trial balance, then it should be treated as Drawings and deducted from Capital. Similarly, Advance Income-Tax given in trial balance should be treated as drawings. If any interest is received on advance income-tax then it is not the business income, but personal income of the proprietor and should be added to capital of the proprietor.

6. **Sales-Tax Collected and Paid**

Sales Tax is collected from customers along with the price of the goods sold. If sales (including sales Tax Rs. 20,000) Rs. 2,00,000 and Sales Tax paid Rs. 18,000 are given in Trial Balance than from sales, sales tax should be dedected and net sales Rs. 1,80,000 (Rs. 2,00,000 less Rs. 20,000) should be taken in trading account credit side and sales-tax payable Rs.2,000 will appear on the liabilities side of the Balance Sheet.

Special Adjustments

(1) Implied or Hidden Adjustment regarding Interest on loan and Income from Investments.

Some adjustments are not given directly in the problem, but they are implied, hence have to be made without being asked. This is explained with the help of the following example.

Trial Balance As on 31-12- 2006

	Dr.	Cr.
Loan taken at 10% (as on 1-1- 2006		50,000
Investments at 9% (as on 1-1- 2006	20,000	
Interest paid on loan	2,500	
Interest received on investments		900

No Adjustment is given in the problem regarding Interest payable and receivable.

Treatment

While preparing the final accounts for the year 2006 interest payable and Interest Receivable should also be considered. Interest on loan taken at 10% on Rs. 50,000 for one year amounts to Rs. 5,000, but only Rs. 2500 has been paid, hence Rs. 2,500 is outstanding similarly interest on Investments (at 9% on Rs. 20,000) for one year amounts to Rs. 1,800

but only Rs. 900 is received and Rs. 900 is still receivable. This will appear in Profit & Loss A/c and B[illegible]e Sheet as under:

Profit & Loss A/c for r ending 31-12- 2006

To Interest on loan			Interest on Investments		
Paid	2,500		received	900	
outstanding	2,500	5,000	receivable	900	1,800

Balance Sheet As on 31-12- 2006

Liabilities	Rs.		Assets	Rs.
Loan taken at 10%	50,000		Investments at 9%	20,000
Add Outst.Interest	2,500		Interest receivable	900
		52,500		

2. Goods used for personal purposes, distributed as sample and to

A manufacturer of medicines used medicines for personal use worth Rs. 800, distributed as samples worth Rs. 3,600 and gave to his staff worth Rs. 1,500 for their personal use. Give adjusting entry.

Drawings A/c	Dr.	800	
Advertisement A/c	Dr.	3,600	
Salaries A/c	Dr.	1,500	
To Purchases A/c			5,900

(Being medicines used for personal use distributed as samples and distributed amongst staff adjusted by crediting purchases A/c)

3. **Ascertainment of stationery used**

(i) Included in the opening stock of 50,800 the stock of stationery Rs. 800 (ii) Included in general expenses account Rs. 25,600, stationery purchased Rs. 1600 and (iii) Included in closing stock of Rs. 35,900 the stock of stationery Rs. 900. Ascertain stationery used and figures at which opening stock, closing stock and general expenses will appear in final accounts.

Treatment

Stationery used is ascertained as follows	
Opening stock of stationery	800
Add. Stationery purchased	1600
	2,400
less. Closing stock of stationery	900
Stationery used	1,500
Opening stock will appear at (50,800-800)	50,000
Closing Stock will appear at (35,900-900)	35,000
General Expenses (25,600-1600)	24,000

4. **Personal Incomes and expenses appearing in business books**

Personal incomes, expenses sometimes are shown along with business

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incomes & expenses in the books of the business. To arrive at the correct profit or loss such items should be separated from business items. This is explained with the help of an example.

Trial Balance as on 31-3- 2006

	Dr.	Cr.
Buildings	60,000	
Capital		2,20,000
Income form personal Investments		2,000
Income-Tax paid	2,000	
Building repair-expenses	1,800	
Insurance	5,500	

Adjustments: Depreciate Buildings by 10% One -third of the building was used for residential purpose of the proprietor treat one-third depreciation and building repairs as personal expense. Annual insurance premium was paid on 1-7-1997 and included Rs. 3,000 life Insurance premium.

Solution:

Profit & Loss A/c for the year ended 31-3- 2006

To Depreciation	6,000	
Less Drawings	2,000	4,000
Buildingrepair expenses	1,800	
Less. Drawings	600	1,200
Insurance Premium Paid	5,500	
Less. Life. Ins.Pre.	3,000	
	2,500	
Less. Unexpired for One-Quarter (1-4-98to30-6-98)	625	1,875

Balance Sheet As on 31-3- 2006

Liabilities	Rs.	Assets	Rs.
Capital		Buildings 60,000	
Ope. Balance	2,20,000	Less.Depreciation 10%6,000	54,000
Add. Income from Per. Investmets	2,000	Unexpired Insurance	625
	2,22,000		
Less Drawings I.Tax	2,000		
L.I.Premium	3,000		

Depreciation 1/3	2000	
Building repairs	600	
		7,600
Profit or loss for the year will be added or deducts		2,14,400

5. Exchange of an old asset with new and the difference regarded as purchases.

Trial Balance

	Dr.	Cr.
Furniture	1,60,000	
Purchases	75,200	

Adjustment:

Furniture which stood in the books at Rs. 40,000 was sold for Rs. 14,000 in part exchange of new furniture costing Rs. 35,200. The net in voice of Rs. 21,200 was passed through the purchases book. Pass adjustment entry and show, how it will be shown in Final Accounts. Ignore depreciation.

Solution:

1. **Loss on Sale of furniture:**

Book Value of Furniture sold	40,000
Less exchange value agreed	14,000
Loss on sale debited to profit & loss A/c	26,000

2. Purchases Account was wrongly debibted with Rs. 21,200 it should be cancelled by crediting it.
3. New Furniture purchased should be debited with Rs. 35,200 and furniture sold should be credited with the book value.

Adjustment Entry:

Furniture (New)	Dr. 35,200	
Profit & Loss A/c	Dr 26,000	
To Furniture (old)		40,000
To Purchases A/c		21,200

Trading A/c

To Purchases	75,200	
Less. Wrong debit	21,200	
	54,000	
Profit & Loss A/c		
To Loss on Sale of furniture	26,000	

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incomes & expenses in the books of the business. To arrive at the correct profit or loss such items should be separated from business items. This is explained with the help of an example.

Trial Balance as on 31-3- 2006

	Dr.	Cr.
Buildings	60,000	
Capital		2,20,000
Income form personal Investments		2,000
Income-Tax paid	2,000	
Building repair-expenses	1,800	
Insurance	5,500	

Adjustments: Depreciate Buildings by 10% One -third of the building was used for residential purpose of the proprietor treat one-third depreciation and building repairs as personal expense. Annual insurance premium was paid on 1-7-1997 and included Rs. 3,000 life Insurance premium.

Solution:

Profit & Loss A/c for the year ended 31-3. 2006

To Depreciation	6,000	
Less Drawings	2,000	4,000
Buildingrepair expenses	1,800	
Less. Drawings	600	1,200
Insurance Premium Paid	5,500	
Less. Life. Ins.Pre.	3,000	
	2,500	
Less. Unexpired for One-Quarter (1-4-98to30-6-98)	625	1,875

Balance Sheet As on 31-3. 2006

Liabilities	Rs.	Assets	Rs.
Capital		Buildings 60,000	
Ope. Balance	2,20,000	Less.Depreciation 10%6,000	54,000
Add. Income from Per. Investmets	2,000	Unexpired Insurance	625
	2,22,000		
Less Drawings I.Tax	2,000		
L.I.Premium	3,000		

Depreciation 1/3	2000	
Building repairs	600	
		7,600
Profit or loss for the year will be added or deducts		2,14,400

5. Exchange of an old asset with new and the difference regarded as purchases.

Trial Balance

	Dr.	Cr.
Furniture	1,60,000	
Purchases	75,200	

Adjustment:

Furniture which stood in the books at Rs. 40,000 was sold for Rs. 14,000 in part exchange of new furniture costing Rs. 35,200. The net in voice of Rs. 21,200 was passed through the purchases book. Pass adjustment entry and show, how it will be shown in Final Accounts. Ignore depreciation.

Solution:

1. **Loss on Sale of furniture:**

Book Value of Furniture sold	40,000
Less exchange value agreed	14,000
Loss on sale debited to profit & loss A/c	26,000

2. Purchases Account was wrongly debibted with Rs. 21,200 it should be cancelled by crediting it.
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Adjustment Entry:

Furniture (New)	Dr. 35,200	
Profit & Loss A/c	Dr 26,000	
To Furniture (old)		40,000
To Purchases A/c		21,200

Trading A/c

To Purchases	75,200	
Less. Wrong debit	21,200	
		54,000
		Profit & Loss A/c
To Loss on Sale of furniture		26,000

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Balance Sheet

Assets		
Furniture	1,60,000	
Add. Purchasd	35,200	
	1,95,200	
Less. Sold	40,000	1,55,200

6. Goods sold on 'Sale of Return basis' included in Sales,.

Trial Balance as on 31-12- 06

Sales		1,20,000
S. Debitors	60,000	

Adjustments : (i) Closing Stock Rs. 55,000 (ii) Included in sales is an amount of Rs. 20,000 representing goods sold on 'sale or return' basis, the customer still having the right to return the goods. The goods were invoiced at a Profit of 20% on sales.

Solution:

Trading Account for the year ending 31-12- 06

By Sales	1,20,000	
Less Sale or return basis	20,000	1,00,000
By Closing Stock	55,000	
Add. Cost of the goods sold on Sale or return basis (80/100x20,000)	16,000	71,000

Balance Sheet As on 31-12- 06

Assets		
S.Debtors	60,000	
Less Sold on sale or return bases	20,000	40,000
Closing Stock (55,000+16,000)		71,000

7. Provision for Doubtful debts, Provision for Discount on Debtors and Reserve for Discount on creditors after making adjustments of S.Debtors and S.creditors

Trial Balance

S. Debtors	75,000
S. Creditors	50,000

Adjustments (1) Create 5% Provision for Doubtful debts.

(2) Provide 2% for Discount on Debtors and Creditors after considering the following information.

(i) S. debtors include Rs. 8,000 due from Rames for dishonoured bill. Nothing is expected to be received from him.

(ii) Rs. 2,000 paid as donation to Vijay Education Society stands debited to Society's account and is included in S. debtors.

(iii) S. Creditors include an amount of Rs. 5,000 received from Sudheer and credited to his account. The amount was written off as bad debts last year.

(iv) Included amongst the Debtors is Rs. 5,000 due from satish and included amongst the creditors is Rs. 1,000 due to Satish.

(v) Two dishonoured cheques for Rs. 200 and Rs. 300 respectively had not been entered in the cash book. The first of Rs. 200 is known to be bad. In the case of second cheque for Rs. 300 it is expected that the debtor would be in a position to pay a dividend of 75 paise in the rupee.

Solution:

	S.Debtors	S.Creditors.
Balance as per Trial Balance	75,000	50,000
Less. Bad Debts (Ramesh)	8,000	
	67,000	
Less Donation included in debtors	2,000	
	65,000	
Less Bad Debts recovered included in creditors		5,000
		45,000
Less Common Debt (Satish both debtor and creditor	1,000	1,000
	64,000	44,000
Add. Dishonoured Cheques	500	
	64,500	
Less. Bad Debts (Rs. 200+25% of Rs. 300)	275	
	64,225	44,000

Provision for D.Debts

S. Debtors as per above calculation	64,225	
Less recoverable portion of dishonoured Cheque of Rs 300 after writing off bad debts Rs 75)	225	
	64,000	
Provision for doubtful debts 5% of Rs. 64,000		3,200
Provision for Discount on Debtors 2% on 60,800 (Rs 64,000 less provision for Doubtful debts Rs. 3,200)		1,216
Reserve for Discount on Creditors 2% on Rs. 44,000		880.

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8. Repairs & Renewals Provision:

Trial Balance As On 31-3- 2006

	Rs.
Repairs & Renewals Provision	11,000
Repairs to Machinery	3,000

Adjustment : Repairs & Renewals Provision is to be credited with Rs. 2,000 every year. Repairs to Machinery are to be debited to this account.

Solution:

P & L A/c for the year ending 31-3-2002

	Rs.
To Repairs & Renewals Provisions	2,000

Balance Sheet As on 31-3-2002

Liabilities	Rs.	
Repairs & Renewals		
Provision Balance	11,000	
Add Transfer from Profit & Loss A/c	2,000	
	13,000	
Less. Repairs	3,000	10,000

Illustration 1

On 31st December 2004 the Debtors of Pradeep Dutt totalled Rs. 50,000. A provision of 5% was made for bad and doubtful debts. In 2005 the total Bad Debts written off were Rs. 1,500. The Debtors on 31st December 2005 were Rs. 40,000. In 2006 Total Bad Debts were Rs. 500 and the Debtors at the end of the year totalled Rs. 26,000. The provision for bad debts has been maintained at 5% of the debtors.

Give the necessary journal entries. Show the Bad Debts Account and the Provision for Doubtful Debts Account for the years 2005 and 2006 Also show the entries in profit & loss Account.

Solution:

Journal Entries

Date	Particulars		Debits Rs.	Credit Rs.
2002 Dec31.	Provision for Doubtful Debts A/c	Dr	1,500	
	To Bad Debts A/c			1,500
	(Being the Bad Debts transferred to Provision for Doubtful Debts Account)			
	Profit & Loss A/c	Dr	1,000	
	To Provision for Doubtful Debts A/c			1,000
	(Being the required amount charged to Profit & Loss A/c)			
2006 Dec.	Provision for Doubtful Debts A/c	Dr	500	
	To Bad Debts A/c			500
	(Being the Bad Debts transferred to Provision for D. Debts A/c)			
	Provision for Doubtful Debts A/c	Dr	200	
	To Profit & Loss A/c			200
	(Being the balance left in Provision for Doubtful Debts after leaving a Provision of 5% on Debtors transferred to profit & Loss Account)			

Bad Debts Account

Dr.	Rs.		Rs.	Cr.
2005 To S. Debtors	1,500	2005 Dec 31 By Provision for Doubtful Debts A/c		1,500
Dec.31	1,500			1,500
2006 Dec.31 To S. Debtors	500	2006 Dec 31 By Provision for Doubtful Debts A/c -transer		500
	500			500

Provision for Doubtful Debts Account

	Rs.		Rs.
2005		2005	
Dec 31 To Bad Debts A/c	1500	Jan 1 By Balance b/d	2500
" To Balance c/d (5% on 40,000)	2000	Dec31 By Profit & Loss A/c (balancing figures)	1,000
	3,500		3,500
2006		2006	
Dec.31 To Bad. Debts A/c	500	Jan 1. By Balance b/d	2,000
" -transfer			
" To Profit & Loss A/c (balancing figure)	200		
" To Balance c/d (5% on 26000)	1300		2,000
	2,000		

Profit and Loss Account (for 2005)

To Provision for doubtful Debts: required	2,000	
Add Bad Debts	1,500	
	3,500	
Less existing provision	2,500	1,000

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Dr. **Profit & Loss Account (for 2003)** Cr.

		By Provision on for Doubtful Debts-existing	2,000
"	less Bad Debts Provision required	500 / 1,300	1800
			200

Illustration 2

From the following particulars prepare Trading and Profit and loss Account for the year ended 31st December 2006 and a Balance Sheet as on that date. Also Pass the closing entries.

	Rs.		Rs.
Capital	30,000	Drawings	6,000
Sundry Creditors	43,000	Bills payable	4,000
Sundry Debtors	51,000	Bills Receivable	17,000
Furniture	8,500	Opening Stock	47,000
Cash in hand	900	Cash at S. B.I	12,500
Overdraft with Central Bank	6,000	Purchases	48,900
Duty and Clearing chrges	3,500	Sales	1,27,000
Salaries	9,500	Travelling expenses	4,700
General Expenses	2,500	Rent paid	2,000
Commission received	4,000		

Closing Stock Rs. 50,000

Solution:

Dr. Trading and Profit and loss Account for the year ended 31st December 2006 Cr.

	Rs.		Rs.
To Opening stock	47,000	By Sales	1,27,000
" Purchases	48,900	" Closing Stock	50,000
" Duty and Clearing charges	3,500		
" Gross Profit c/d	77,600		
	1,77,000		1,77,000
To Salaries	9,500	By Gross Profit b/d	77,600
" General Expenses	2,500	" Commission	4,000
" Rent	2,000		
" Travelling Expenses	4,700		
" Net Profit transferred to Capital Account	62,900		
	81,600		81,600

Balance Sheet As on 31st December, 2006

Liabilities	Rs.	Assets	Rs.
Sundry Creditors	43,000	Cash in hand	900
Bills Payable	4,000	Cash with S.B.I	12,500

Over draft with Central Bank		6,000	Bills Receivable 17,000
			Sundry Debtors 51,000
Capital:			Closing Stock 50,000
Opening Balance	30.000		Furniture 8,500
Add Net profit	62,900		
	92,900		
Less Drawings	6,000	86,900	
		1,39,900	1,39,900

Closing Entries:

	Particulars		Debit Rs.	Credit Rs.
1.	Trading Account	Dr.	99,400	
	To Stock (opening)			47,000
	To Purchases			48,900
	To Duty and Clearing charges			3,500
	(Being debit items of Trading Account transferred)			
2.	Sales	Dr	1,27,000	
	Stock (closing)	Dr	50,000	
	To Trading Account			1,77,000
	(Being the credit items of Trading Account transferred)			
3.	Trading Account	Dr	77,600	
	To Profit & Loss Account			77,600
	(Being the gross profit transferred)			
4)	Profit and loss Account	Dr	18,700	
	To Salaries			9,500
	To General Expenses			2,500
	To Rent			2,000
	To Travelling Expenses			4,700
	(Being the debit items of profit & loss A/c transferred)			
5)	Commission	Dr	4,000	
	To Profit and loss Account			4,000
	(Being credit items of profit & loss A/c transferred)			
6)	Profit & Loss A/c	Dr	62,900	
	To Capital A/c			62,900
	(Being the net profit transferred to Capital Account)			

Illustration 3

From the following balances and adjustments prepare final accounts as on 31-03- 2006

	Rs.		Rs.
Purchases	65,000	Bank Overdraft	8,000
Sales	1,20,000	Capital Account	60,000
Opening Stock	15,000	Bad Debts Reserve	2,500
Purchase Returns	1,500	Debtors Discount Reserve	2,000

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	2,000	Plant & Machinery	
Sales Returns	18,000	Land and Buildings	20,000
Sundry Creditors	4,000	Factory Expenses	50,000
Salaries	800	Wages	600
Carriage	10,000	Insurance	600
Bills Payable	1,500	General Expenses	600
Advertisement expenses	200	Sundry Debtors	400
Commission paid	400	Bills Receivable	15,000
Bad Debts	300	Cash in Hand	19,000
Discount(Dr.)	800	Drawings	600
Creditors Discount Reserve	20,000		2,400
Goodwill			

a) Closing Stock Rs. 12,000
b) Prepaid Insurance Rs. 150
c) Outstanding expenses Wages Rs. 400, Salaries Rs. 1,200
d) Bad Debts to be written off Rs. 600 and provide Bad Debts Reserve @ 5% on Debtors.
e) provide 2% Discoun Reserve on Debtors and Creditors
f) Depreciation is to be calculated 10% on plant and Machinery and 5% on Land and Buildings. **(B.Com. Kakatiya)**

Solution:

Dr. Trading Profit and Loss A/c for the year ended 31st March 2006 Cr.

		Rs.			Rs.
To Opening stock		15,000	By Sales	1,20,000	
" Purchases	65,000		less returns	2,000	1,18,000
Less Returns	1,500	63,500	" Closing Stock		12,000
" Wages	600				
add oustanding	400	1,000			
" Carriage		800			
" Factory Expenses		600			
" Gross Profit c/d		49,100			
		1,30,000			1,30,000
To Salaries	4,000		By Gross Profit b/d		49,100
add outstanding	1,200	5,200	By Provision for D. Debts		
" Insurance	600		existing	2,500	
less prepaid	150	450	less required	720	1,780
" General Expenses		400	" Provision for Discount		
" Commission paid		200	on Debtors		
" Advertisement		1,500	existing	2000	
" Bad Debts	400				
add futher	600	1,000	less required	274	1,726
" Discount		300			

" Depreciation:					
Plant & machinery	2000				
Land&Buildings	2500	4500			
" Reserve for Discount on					
Creditors:					
existing	800				
less required	360	440			
" Net Profit transferred to					
Capital A/c		38,616			
		52,606			52,606

Balance Sheet As on 31st March 2006

Liabilities		Rs.	Assets		Rs.
Capital-op. Bal.	60,000		Goodwill		20,000
Add Net Profit	38,616		Land and Buildings	50,000	
	98,616		Less Depreciation	2,500	47,500
Less Drawings	2400	96,216	Plant&Machinery	20,000	
S. Creditors	18,000		Less Depreciation	2000	18,000
Less Reserve for			Closing Stock		12,000
Discount	360	17,640			
Bank Overdraft		8,000	S. Debtors	15,000	
Bills Payable		10,000	Less Bad Debts	600	
				14,400	
Creditors for outstanding					
expenses			less Prov. for D.Debts	720	
Wages	400		(5% on 14,400)	13,680	
Salaries	1,200	1,600	less Provision for		
			Dis. on Debtors	274	
			(2% on 13,680)		13,406
			Bills Receivable		19,000
			Prepaid Insurance		150
			Cash in hand		600
			Suspenses Account		
			(Difference in books)		2,800
		1,33,456			1,33,456

Illustration 4

The following is the Trial Balance extracted from the book of Akhilesh as on 30th September 2006

	Debit Rs.	Credit Rs.
Capital Account		1,00,000
Plant and machinery	78,000	
Furniture	2,000	

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		60,000	
Purchases and Sales		1,000	1,27,000
Returns		30,000	
Opening Stock		425	750
Discounts		45,000	
Sundry Debtors/Creditors		7,550	800
Salaries		10,000	25,000
Manufacturing Wages		1,200	
Carriage Outwards			
Provisions for Doubtful Debts		10,000	525
Rent, Rates and Taxes		2,000	
Advertisements		6,900	
Cash		2,54,075	
			2,54,075

Prepare Trading and Profit and Loss Account for the year ended 30th September 2006 and a Balance Sheet as on that date after taking into account the following adjustments:-

a) Closing stock was valued at Rs. 34,220
b) Provision for doubtful debts is to be kept at Rs. 500.
c) Depreciate plant and machinery @ 10% p.a.
d) The proprietor has taken goods worth Rs. 5,000 for personal use and additionally distributed goods worth Rs. 1,000 as samples.
e) Purchase of furniture Rs. 920 has been passed through purchases Book.

(B.Com. Osm.)

Trading profit & Loss A/c of Akhilesh for the year ended 30.9. 2006

	Rs.	Rs.		Rs.	Rs.
To Opening Stock		30,000	By Sales	1,27,000	
To Purchases	60,000		Less returns	1,000	1,26,000
Less Returns	750		By Closing Stock		34,200
	59,250				
Less with drawn by proprietor	5,000				
	54,250				
Less Samples	1,000				
	53,250				
Less Furniture	920	52,330			
To Manufacturing wages		10,000			
To Gross Profit c/d		67,890			
		1,60,220			1,60,220
To Salaries		7,550	By Gross profit b/d		67,890
To Rent, Rates and taxes		10,000	By Discount		800
To Carriage		1,200	By Provision for Bad debts		
To Advertisements		2,000	existing	525	
			less required	500	25
To Dep. on plant & Machinery		7,800			
To Discount		425			
To Samples distributed		1,000			
To Net profit transferred to Capital Account		38,740			
		68,715			68,715

Balance Sheet as on 30.9. 2006

Liabilities		Amount Rs.	Assets		Amount Rs.
Capital	1,00,000		Plant&machinery	78,000	
Less Goods withdrawn	5,000		less: Depreciation @ 10%	7,800	70,200
	95,000		Furniture	2,000	
Add Net profit	38,740	1,33,740	Add purchases	920	2,920
Creditors		25,000	Sundry Debtors	45,000	
			Less Prov.D.Debts	500	44,500
			Closing Stock		34,220
			Cash		6,900
		1,58,740			1,58,740

Illustration 5. From the following figures extracted from the books of Pradeep Reddy, you are required to prepare Trading and Profit and Loss Account for the year ended 31st December, 2006 and a Balance Sheet as on that date, after making the necessary adjustments.

	Rs.		Rs.
Capital	12,00,000	Freehold Property	1,50,000
Drawings	8,000	Plant and Machinery	2,00,000
Purchases	1,15,000	Returns outwards	5,000
Salaries	20,000	Bills payable	23,000
S. Creditors	50,000	Office Furniture	10,000
Discount allowed	2,000	Provision or Doubtful Debts	2,000
Loan from Ajay @ 10%			61,000
Balance on 1-1-2006	60,000	Sundry Debtors	3,60,000
Cash at Bank	15,000	Sales	30,000
Wages	50,000	Stock on 1-1-06	3,000
Insurance	4,000	Postage and Telegrams	6,000
Bad Debts	2,000	Carriage Inwards	9,000
Freight and Duty	3,000	Office Rent	2,000
Cash on hand	1,000	Factory lighting	6,000
Interest on loan	3,000	Loose Tools	

Adjustments

1) Outstanding wages Rs. 2,000: Salaries Rs. 3,000
2) Insurance Prepaid Rs. 1,000

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3) Stock on 31-12-2006 Rs. 45,000
4) A new machine was installed on 30th September, 2006 costing Rs. 20,000 but it was not recorded in books and no payment was made.
5) Goods destroyed by fire valued at Rs. 10,000; Insurance Company admitted the claim to the extent of Rs. 6,000.
6) Depreciate Plant and Machinery by 10%, Furniture by 5%, Loose tools were valued at Rs. 5,000 on 31st December, 2006
7) Write off bad debts Rs. 1,000.
8) Maintain a provision of 5% on S. Debtors for doubtful debts, and 2% for discount on Debtors and a Reserve of 2% for discount on Creditors.
9) The manager is entitled to a commission of 10% on net profit after charging such commission.

Solution

Dr. Trading Profit and Loss Account for the year ended Dec. 31. 2006 Cr.

		Rs.			Rs.
To	Opening Stock	30,000	By	Sales	3,60,000
	Purchases 1,15,000		"	Closing Stock	45,000
"	Less returns 5,000	1,10,000	"	Loss of goods by fire	10,000
"	Carriage Inwards	6,000			
"	Freight and duty	3,000			
"	Wages 50,000				
	add outstanding 2,000	52,000			
"	Factory lighting	2,000			
"	Gross Profit c/d.	2,12,000			
		4,15,000			4,15,000
To	Salaries 20,000		By	Gross profit b/d.	2,12,000
	add outstanding 3,000	23,000	"	Reserve for Discount on Creditors	1,000
"	Office Rent	9,000			
"	Insurance 4,000				
	Less Prepaid 1,000	3,000			
"	Postage and telegrams	3,000			
"	Interest on loan paid 3,000				
	add outstanding 3,000	6,000			
"	Depreciation :				
	Plant & Mach. 20,500				
	Furniture 500				
	Loose Tools 1,000	22,000			
	Provision for D. Debts required 3,000				
	Add Bad debts 3,000				
		6,000			
	Less existing Provision for Discount on Debtors : required 1,140				
	Add Discount allowed 2,000	3,140			
"	Loss of goods by fire	4,000			
"	Manager's Commission	12,351			
"	Net Profit transferred to Capital Account	1,23,509			
		2,13,000			2,13,000

Balance Sheet of Pradeep Reddy as on 31st December, 1992

Liabilities		Rs.	Assets		Rs.
Sundry Creditors	50,000		Cash in Hand		1,000
Less Reserve for Discount	1,000	49,000	Cash at Bank		15,000
Bills Payable		23,000	Prepaid insurance		1,000
Creditors for Outstanding Expenses			Closing stock		45,000
Wages	2,000		Sundry Debtors	61,000	
Salaries	3,000	5,000	Less bad debts	1,000	
Commission Payable to manager		12,351		60,000	
Loan from Ajay	60,000		-Doubtful debts	3,000	
Add interest due	3,000	63,000		57,000	
Creditors for machinery		20,000	Less provision for discount on debtors	1,140	55,860
Capital :			Amount due from Insurance Company		6,000
Opening Balance	2,00,000		Loose tools	6,000	
add Net Profit	1,23,509		less depreciation	1,000	5,000
	3,23,509		Furniture	10,000	
Less drawings	8,000	3,15,509	Less depreciation	500	9,500
			Plant & Machinery		
			Balance on 1st Jan	2,00,000	
			additions during the year	20,000	
				2,20,000	
			Less depreciation	20,500	1,99,500
			Freehold property		1,50,000
		4,87,860			4,87,860

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3) Stock on 31-12-2006 Rs. 45,000
4) A new machine was installed on 30th September, 2006 costing Rs. 20,000 but it was not recorded in books and no payment was made.
5) Goods destroyed by fire valued at Rs. 10,000; Insurance Company admitted the claim to the extent of Rs. 6,000.
6) Depreciate Plant and Machinery by 10%, Furniture by 5%, Loose tools were valued at Rs. 5,000 on 31st December, 2006
7) Write off bad debts Rs. 1,000.
8) Maintain a provision of 5% on S. Debtors for doubtful debts, and 2% for discount on Debtors and a Reserve of 2% for discount on Creditors.
9) The manager is entitled to a commission of 10% on net profit after charging such commission.

Solution

Trading Profit and Loss Account for the year ended Dec. 31. 2006

Dr.		Rs.			Cr. Rs.
To	Opening Stock	30,000	By	Sales	3,60,000
	Purchases 1,15,000		"	Closing Stock	45,000
"	Less returns 5,000	1,10,000	"	Loss of goods by fire	10,000
"	Carriage Inwards	6,000			
"	Freight and duty	3,000			
"	Wages 50,000				
	add outstanding 2,000	52,000			
"	Factory lighting	2,000			
"	Gross Profit c/d.	2,12,000			
		4,15,000			4,15,000
To	Salaries 20,000		By	Gross profit b/d.	2,12,000
	add outstanding 3,000	23,000	"	Reserve for Discount on Creditors	1,000
"	Office Rent	9,000			
"	Insurance 4,000				
	Less Prepaid 1,000	3,000			
"	Postage and telegrams	3,000			
"	Interest on loan paid 3,000				
	add outstanding 3,000	6,000			
"	Depreciation :				
	Plant & Mach. 20,500				
	Furniture 500				
	Loose Tools 1,000	22,000			
	Provision for D. Debts required 3,000				
	Add Bad debts 3,000				
	6,000				

	Less existing Provision for Discount on Debtors : 2,000	4,000	
"	required 1,140		
	Add Discount allowed 2,000	3,140	
"	Loss of goods by fire	4,000	
"	Manager's Commission	12,351	
"	Net Profit transferred to Capital Account	1,23,509	
		2,13,000	2,13,000

Balance Sheet of Pradeep Reddy as on 31st December, 1992

Liabilities		Rs.	Assets		Rs.
Sundry Creditors	50,000		Cash in Hand		1,000
Less Reserve for Discount	1,000	49,000	Cash at Bank		15,000
Bills Payable		23,000	Prepaid insurance		1,000
Creditors for Outstanding Expenses			Closing stock		45,000
Wages	2,000		Sundry Debtors	61,000	
Salaries	3,000	5,000	Less bad debts	1,000	
Commission Payable to manager		12,351		60,000	
Loan from Ajay	60,000		-Doubtful debts	3,000	
Add interest due	3,000	63,000		57,000	
Creditors for machinery		20,000	Less provision for discount on debtors	1,140	55,860
Capital :			Amount due from Insurance Company		6,000
Opening Balance	2,00,000		Loose tools	6,000	
add Net Profit	1,23,509		less depreciation	1,000	5,000
	3,23,509		Furniture	10,000	
Less drawings	8,000	3,15,509	Less depreciation	500	9,500
			Plant & Machinery		
			Balance on 1st Jan	2,00,000	
			additions during the year	20,000	
				2,20,000	
			Less depreciation	20,500	1,99,500
			Freehold property		1,50,000
		4,87,860			4,87,860

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Manufacturing Accounting

A firm engaged in manufacturing business prepares Manufacturing Account in addition to Trading and Profit and Loss Account. Manufacturing account is intended to disclose the factory cost of Production. A specimen of Manufacturing, Trading and Profit & Loss Account is give below.

Manufacturing Account

For the year ended.....

	Rs.		Rs.
To Work in Progress (opening)		By Work in progress (closing)	
Raw Materials consumed		" Sale of Scrap	
Opening stock of Raw Materials		" Cost of goods manufactured transferred to Trading Account	
Add: Purchases of Raw Materials			
Less Closing Stock of Raw Materials			
" Direct wages			
" Carriage Inwards			
" Factory Rent			
" Factory Repairs			
" Supervisor's Salary			
" Factory lighting			
" Depreciation of Plant and Machinery			

Trading and Profit & Loss Account

for the year ended.....

	Rs.		Rs.
To Opening Stock of Finished Goods		By Sales	
		Less Returns	
To Cost of Goods manufactured		By Closing stock of Finished goods	
To Gross Profit c/d			
To Administrative Expenses		By Gross Profit b/d	
To Selling & Distribution Expenses		" All items of gains and incomes	
" Financial Expenses			
" Management Expenses			
" Net Profit			

SHORT ANSWER QUESTIONS

1) Ascertain the Gross profit from the following figures.

	Rs.
Opening stock of Goods	20,000
Closing stock of Goods	30,000
Purchases	80,000
Purchases Returns	2,000
Sales	1,60,000
Sales Returns	3,000
Carriage Inwards	2,000
Carriage Outwards	4,000
Freight, duty and clearing charges	5,000
Rent and taxes	3,500

(Ans. Rs. 82,000)

2) Ascertain the Net Profit from the following Particulars:

	Rs.
Gross Profit	82,000
Salaries	18,000
Rent, Rates and taxes	5,000
Depreciation on Machinery	8,000
Printing and stationery	2,000
Commission received	1,500
Furniture and Fixtures	15,000

(Ans. Rs. 50,500)

3) Prepare a Balance Sheet from the following information:

	Rs.		Rs.
Creditors	1,00,000	Debtors	2,00,000
Closing Stock	50,000	Capital	5,00,000
Motor Van	50,000	Machinery	5,00,000
Goodwill	1,00,000	Loan	3,00,000

(B.Com. Osm.)

(Ans. Balance Sheet Total Rs. 9,00,000)

4) Ascertain the cost of goods sold	Rs.
Opening Stock	20,000
Purchases	1,18,000

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Direct Expenses	22,000
Closing Stock	30,000

(Ans. Rs. 1,30,000)

5) Ascertain the cost of goods sold:

Opening Stock	Rs. 5,000
Closing Stock	Rs. 6,000
Purchases	Rs. 50,000
Sales	Rs. 80,000
Purchase returns	Rs. 1,000
Sales Returns	Rs. 1,800
Wages	Rs. 4,900
Goods used by Proprietor	Rs. 200

(B.Com. Osm.) (Ans. Rs. 52,700

6) Ascertain purchases from the following figures:

	Rs.
Opening Stock	10,000
Direct expenses	8,000
Indirect expenses	15,000
Sales	60,000
Closing stock	12,000
Gross profit	14,000

(B.Com. Osm.)

(Ans. Rs. 40,000)

7) Calculate Gross Profit from the he following figures.

	Rs.
Cost of goods sold	1,30,000
Sales	1,90,000

(Ans. Rs. 60,000)

8) Pass necessary adjustment entries to the following:

Closing Stock Rs. 15,000

Outstanding Expenses Rs. 1,200

Prepaid Expenses Rs. 150

Interest accrued Rs. 500

Premium received in advance Rs. 1,100.

Provide Rs. 400 as reserve for bad and doubtful debts.

(B.Com Kakatiya)

9) A Trader's Trial balance contains.

	Rs.
S. Debtors	50,000
Bad Debts	1,000

It is desired to provide for doubtful debts at 5% of the debtors. Make the necessary provision and show the treatment in the final accounts.

(B.Com. Osm.)

10) On 1st January 2006 the Provision for Bad Debts stood at Rs. 2,100. During the year Bad Debts totalled to Rs. 1,800. At the end of the year Sundry Debtors were Rs. 50,000. The firm wishes to maintain the provision for bad debts @ 5% of sundry debtors. Give the necessary journal entries and the Provision for Bad Debts Account.

(Ans. Profit & Loss Account debited with Rs. 2,200).

11) In a trial balance debtors appear at Rs. 61,000 and creditors at Rs. 33,000. Make provision for doubtful debts at 5% on debtors and provision for discount on creditors at 2% after considering the fact that included in debtors is the amount of Rs. 1,000 due from Shyam (one of the customers) and included in creditors is the amount of Rs. 3,000 due to Shyam.

(B.Com. Osm.)

12) On 1st January, 2006 the Provision for doubtful debts stood at Rs. 550. During the year bad debts written off were Rs. 400. At the end of the year the Sundry Debtors were Rs. 10,000. The firm wishes to maintain the provision for doubtful debts at 5% on the Sundry Debtors. Give Journal Entries to be passed on 31st Dec. 2006

13) The Reserve for Discount on Creditors as on 31st December 2005 was Rs. 900. During 2006 discounts received from creditors totalled Rs. 1,200. On 31st December 2006 the creditors totalled Rs. 30,000. The Reserve for Discount on Creditors is to be kept @ 2% of the creditors. Give the required Journal entries and the Reserve for Discount on Creditors Account.

(Ans. Profit & Loss Account credited with Rs. 900)

14) Show the treatment of the following items in Profit and Loss Account and Balance Sheet prepared at the end of 2006

	Dr. Rs.	Cr. Rs.
Loan @ 10% (taken on 1-1- 2006		20,000
Interest on Loan	1,500	
Deposits @ 12% (on 1-1- 2006	10,000	
Interest on Deposits		500

15) The closing stock on 31st December 2006 was Rs. 35,000. There was a loss by fire of Rs. 10,000 in the first week of December 1985. Show how will you deal with this in case

(a) stock was not at all insured (b) stock was fully covered by insurance (c) stock was partly covered by insurance and the claim of Rs. 7,000 was accepted by the insurance company.

16) A plant of the book value of Rs. 40,000 was disposed off for Rs. 14,000

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in part exchange for a new plant costing Rs. 35,200. The net invoice of Rs. 21,200 was passed through the invoice book. Make the necessary adjustments.

17) Included in the sales were sales of goods of Rs. 10,000 on sale or return basis for which consent of the customers was not received upto 31st December, 2006 the day on which accounts are closed. Goods sold included profit at 25% on cost. Make the necessary adjustments.

18) Closing stock includes goods worth Rs. 5,800 for which bills had not been received and accounted for in the books. Make the necessary adjustments.

19) Machinery sold during the year, Rs. 5,800 has been credited to sales account. The machinery account stood in the books at Rs. 8,000. Make the necessary adjustments.

20) During the year 2006 a machine was purchased for Rs. 20,000 from Usha Ltd. Wages of workmen who installed the machine amounted to Rs. 1,000. No entry has yet been passed. Pass the necessary entry and show the effect on final accounts.

PROBLEMS

1) On 1st April 2004 the provision for doubtful debts showed a credit balance of Rs. 2,000. During the year the bad debts amounted to Rs. 1,700. The sundry debtors on 31st March 2005 were Rs. 60,000 and a provision for doubful debts at 5% is required to be maintained. The bad debts during the year ended 31st March 2006 amounted to Rs. 1,900. On 31st March 2006 the sundry debtors were Rs. 56,000 and a provision for doubtful debts at 5% is to be maintained. During the year ended 31st March 2007 the bad debts amounted to Rs. 800 and the book debts on this date amount to Rs. 20,000 on which a 5% provision for doubtful debts and a 3% provision for discounts are to be maintained.

Give the necessary ledger accounts and show how these items will appear in the Profit and Loss Account and the balance sheet of each of these years.

(B.Com. Osm.)

2) On 1st January 2005 the provision for doubtful debts account showed a credit balance of Rs. 5,000. During the year, the bad debts amounted to Rs. 4,000. The debtors at 31st December 2005 were Rs. 1,25,000 and a 5% provision for doubtful debts was required to be maintained. The bad debts during the year 2006 were Rs. 6,250. On 31st December 2006 the debtors were Rs. 1,40,000 and a 5% provision for doubtful debts was to be kept. In 2007 the bad debts were Rs. 2,000 and the debtors at the end of the year amounted to Rs. 60,000 on which 2½%. Provision for doubtful debts and 5% provision for discount are to be kept.

Show the necessary ledger accounts and also show how these items will appear in the profit and loss account and balance sheet of each of three years.

(B.Com. Osm.)

3) A firm maintains a provision for bad debts at 5% and a provision for discount at 2% on debtors. It also maintains a reserve for discount on creditors at 2% from the following particulars write up the provision or reserve accounts for all the years. Balances on 1st January 2004

	Rs.
Provision for Bad Debts	500
Provision for Discount on Debtors	300
Reserve for Discount on Creditors	250

Total debtors were :

On 31-12 2004 Rs. 12,000, after writing off bad debts Rs. 300 and allowing discounts Rs. 250.

On 31-12 2005 Rs. 8,000 after writing off bad debts Rs. 100 and allowing discounts Rs. 125.

On 31-12 2006 Rs. 10,000 after writing off bad debts Rs. 400 and allowing discounts Rs. 175.

The creditors at the end of 2004 2005 and 2006 were Rs. 8,000 Rs. 6,000 and Rs. 10,000 respectively. Discount received during each of the years amounted to Rs. 200, Rs. 120 and Rs. 180.

4) From the following figures prepare trading and profit and loss account for the year ended 31st December 2006 and balance sheet as that date.

	Rs.
Capital	30,000
Drawings	6,000
Sundry creditors	43,000
Bills payable	4,000
Sundry debtors	51,000
Bills receivable	5,000
Loan advanced to Deepak & Co.	12,000
Fixtures & Fittings	8,500
Opening stock	47,000
Cash in hand	900
Cash at State Bank of India	12,500
Overdraft with Central Bank of India	6,000
Purchases	50,000
Duty and clearing charges	3,500
Sales	1,28,000
Salaries	9,500

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Returns from customers	1,000
Return to creditors	1,100
Commission and Travelling Expenses	4,700
General Expenses	2,500
Rent Paid	2,000
Commission received	4,000

Adjustments

1) Closing Stock Rs. 50,000.
2) Interest to be received Rs. 200.
3) Outstanding salaries Rs. 500.
4) Depreciate Fixtures and fittings by 10%.
5) Commission received in advance Rs. 600.
6) Allow interest on capital at 8%.

(Ans. Gross profit Rs. 77,600; Net Profit Rs. 58,750; Balance Sheet Total Rs. 1,39,250)

5) From the following trial Balance of Swaroop Kishan as at 31st March, 2006 Prepare Trading and Profit and Loss Account for the year ended 31st March 2006 and a Balance Sheet as on that date:

Debit Balances	Rs.	Credit Balances	Rs.
Stock	45,000	Capital	75,000
Plant and Machinery	75,000	Sales	4,20,750
Purchases	2,25,000	Sundry Creditors	15,000
Trade Charges	10,000	Bad Debts Provision	200
Carriage Inwards	2,500	Bills Payable	2,000
Carriage Outwards	1,500		
Factory Rent	1,500		
Discount	350		
Insurance	700		
Sundry Debtors	60,000		
Office Rent	3,000		
Printing and Stationery	600		
Travellers Salaries	2,800		
Advertising	15,000		
Bills Receivable	6,000		
Drawings	6,000		
Salaries	15,000		
Wages	20,000		
Furniture	7,500		
Coal and Gas	1,000		

Cash in Hand	2,000	
Cash at Bank	12,500	
	5,12,950	
		5,12,950

Adjustments:

a) Closing Stock amounted to Rs. 35,000.
b) Depreciate Machinery by 10% and Furniture by 5%
c) Raise the Bad Debts Provision to 5% on Debtors.
d) Outstanding Factory Rent Rs. 300 and Office Rent Rs. 600.
e) Insurance Prepaid Rs. 100

(B.Com. Osm.)

(Ans. Gross Profit Rs. 1,60,450; Net Profit Rs. 1,00,325; Balance Sheet Total Rs. 1,87,225)

6) On 31st March, 2006 the following figures are extracted from the books of Ranga Rao. Prepare final accounts for the year after taking into account the following adjustments.

a) Depreciation 10% off Plant and Fixtures.
b) Provide for March rent unpaid Rs. 150
c) Provide for Reserve for Bad Debts 2½% on Debtors
d) Outstanding wages Rs. 800 and Salaries Rs. 350
e) Stock on 31st March 06 Rs. 16,580.

	Rs.		Rs.
Plant	55,000	Cash at Bank	2,245
Fixtures	1,720	Cash in hand	118
Capital	93,230	S. Debtors	48,000
Factory fuel and Power	542	S. Creditors	22,880
Office Salaries	3,745	Purchases	83,290
Lighting (factory)	392	Wages	9,915
Sales	1,26,117	Rent and Taxes	1,705
Travelling expenses	925	Office expenses	2,778
Carriage Outwards	380	Carriage inwards	897
Discount	422	Return outwards	3,172
Drawings	6,820	Bills Payable	6,412
Stock	21,725	Insurance prepaid	100
Manufacturing expenses	2,940	Commission	260
Insurance	470	Returns Inwards	7,422

(B.Com. Nagarjuna)

(Ans. Gross Profit Rs. 17,946; Net Loss Rs. 111; Balance Sheet Total Rs. 1,16,891)

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7) The following balances appeared in the books of a merchant on 31st December, 2006

	Rs.		Rs.
Buildings	70,000	Carriage Inwards	1,291
Motor Trucks	12,000	Reserve for bad Debts	1,320
Furniture	1,640	Establishment	2,135
Debtors	15,600	Carriage Outwards	800
Creditors	18,852	Insurance	783
Stock	15,040	Interest (Credit)	340
Cash in hand	988	Bad Debts	613
Cash at bank	14,534	Audit Fees	400
Bills Receivable	5,844	General Charges	3,950
Bills Payable	6,930	Trade Expenses	325
Purchases	85,522	Discount (Dr.)	620
Sales	1,21,850	Investments	8,922
Capital	92,000	Returns Inwards	285

Prepare final accounts for the year 2006 after taking into consideration the following matters.

a) Stock on 31st December 2006 amounted to Rs. 15,500.
b) Depreciation on Motor Trucks 20% and Furniture 10%.
c) Write off further of Rs. 100 as bad debts and maintain the bad debts reserve at 5% on debtors.
d) Unexpired insurance Rs. 150
e) Interest accrued on investments Rs. 120

(B.Com. Nagarjuna)

(Ans. Gross profit Rs. 34,887; Net Profit Rs. 24,077; Balance Sheet Total Rs. 1,41,859)

8) From the following Trial balance of Sri Subhash, Prepare Trading and Profit and Loss Account for the year ended 31st December, 2006 and a Balance Sheet as on that date after giving effect to the adjustments given.

Trial Balance on 31-12-2006

Debit Balances	Rs.	Credit Balances	Rs.
Adjusted Purchases	34,96,000	Capital	2,00,000
Bank	7,500	Bills Payable	50,000
Salaries	21,000	Loan	1,00,000
Carriage on Sales	2,500	Sales	36,00,000
Carriage on Purchases	2,000	Discount	2,000
Lighting	1,500	Commission	500
Buildings	1,35,000	Sundry Creditors	1,00,000

Rates and Taxes	2,000	
Debtors	40,000	
Furniture	30,000	
Cash in hand	1,250	
Bills Receivable	7,500	
Stock on 31-12-2006	3,06,250	
	40,52,500	40,52,500

Adjustments

a) Rates have been prepaid to the extent of Rs. 600
b) Write off bad debts amounting to Rs. 2,500.
c) A provision of 5% has to be made on debtors
d) Buildings have to be depreciated at 2% and Furniture at 10%.
e) Goods purchased on credit taken into stock but not recorded in the books Rs. 5,000.

(B.Com. Kakatiya)

(Ans. Gross profit Rs. 97,000; Net profit Rs. 63,025; Balance Sheet Total Rs. 5,18,025)

9) From the following balances prepare Trading and Profit and Loss Account for the year ending 30-6-2006 and the Balance Sheet as on that date.

	Rs.		Rs.
Stock 1-7-05	18,600	Loan taken	5,000
Coal and Coke	2,000	Creditors	4,000
Manufacturing Wages	11,000	Debtors	16,000
Purchases	80,000	Profit & Loss A/c (Cr.)	4,000
Sales	1,20,000	Leasehold Property	6,500
Repairs	1,000	Machinery	8,000
Carriage outwards	1,500	Patents	1,000
Loose tools 1-7-05	1,300	Discount received	600
Govind Rao's Capital	40,000	Goodwill	15,000
Lighting expenses	1,800	Cash at bank	5,100
Salaries	2,600	Cash in hand	200
Office Furniture	500		
Discount allowed	1,500		

Adjust the following :

1) Charge depreciation at 25%, 10% and 5% respectively, on patents, machinery and furniture.
2) Wages Rs. 200, Salaries Rs. 100 are outstanding.
3) Lighting expenses are to be divided between factory and office in 2:1 ratio

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4) On 30-6-2006 the stock value was Rs. 12,000 and loose tools value Rs. 1,000
5) Maintain 5% bad debts reserve.
6) 6% interest on loan is outstanding

(B.Com. S.K.D.)

(Ans. Gross Profit Rs. 19,000; Net Profit Rs. 9,825; Balance Sheet Total Rs. 63,425)

10) On 31st March 2006 the following trial balance was extracted from the books of A:

	Dr. Rs.	Cr. Rs.
Capital Account		1,00,000
Plant and Machinery	1,60,000	
Sales		3,54,000
Purchases	1,20,000	
Returns	2,000	1,500
Opening stock (1-4- 2005	60,000	
Discount	700	1,600
Bank charges	150	
Sundry Debtors	90,000	
Sundry Creditors		50,000
Salaries	13,600	
Manufacturing Wages	20,000	
Carriage Inwards	1,500	
Carriage Outwards	2,400	
Bad Debts Provision		1,050
Rent, Rates and Taxes	20,000	
Advertisements	4,000	
Cash in Hand	1,800	
Cash at Bank	12,000	
	5,08,150	5,08,150

You are asked to prepare the final accounts for the year ended 31st March 2006 and the Balance Sheet as on that date. The following adjustments are required.

1) Closing Stock Rs. 70,000
2) Depreciation of Plant at 12%.
3) Bad Debts Provision to be adjusted to Rs. 1,000.
4) Interest on Capital to be allowed at 10% per annum.

5) 5% of the profit is to be carried to Reserve Fund.

(B.Com. Osm.)

(Ans. Gross Profit Rs. 2,22,000; Net Profit Rs. 1,45,920: Balance Sheet Total Rs. 3,13,600).

Hint:- Net Profit before transfer to Reserve Fund Rs. 1,53,600. Amount transferred to Reserve Fund Rs. 7,680, Reserve Fund will appear on the liabilities side in the Balance Sheet.

11) From the following Trial Balance and the subjoined information, prepare Trading and Profit and Loss Account for the year ended 31st December, 2006 and a Balance Sheet as on that date:

Trial Balance as on 31st December 2006

	Dr. Rs.	Cr. Rs.
Mohan's Capital Account		8,500
Mohan's Drawing Account	1,420	
Machinery	1,900	
Stock 1st January 2006	2,920	
Purchases and Sales	20,724	23,812
Returns Inwards and Outwards	420	582
Sundry Expenses	880	
Rent	240	
Rates and Taxes	400	
Apprentice Premium		240
Bank Overdraft		400
Bad Debts	344	
Sundry Debtors and Creditors	6,400	2,000
Cash at office	96	
Provision for doubtful debts		210
Bills Receivable and Payable	480	360
Discount		120
	36,324	36,224

a) Stock on 31st December, 2006 was Rs. 3,400.
b) Provide for doubtful debts at 5% on Sundry debtors.
c) Rent due was Rs. 80.
d) Taxes of Rs. 160 were paid in advance.
e) Depreciate Machinery at 10% per annum.
f) Apprentice premium of Rs. 40 was to be carried forward.
g) Calculate Interest on Capital at 5% p.a. but not on Drawing.

(B.Com. Osm.)

(Ans. Gross Profit Rs. 3,730; Net Profit Rs. 1,541; Balance Sheet Total Rs. 11,926)

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12) From the following particulars extracted from the books of Durvasulu, prepare Trading and Profit and Loss Account for the year ended 31st December 2006 and a Balance Sheet as on that date.

Debit	Rs.	Credit	Rs.
Stock on 1-1 2006	23,400	Durvasulu's Capital	54,050
Sales returns	4,300	Sales	1,44,800
Purchases	1,21,550	Purchases Returns	2,900
Carriage Inwards	9,300	Sundry Creditors	7,400
Rent	2,850	Loan from Dena Bank @ 12%	10,000
Salaries	4,650	Interest on investments	725
Sundry Debtors	12,000	Discount	1,495
Interest on Loan	450		
Printing and Stationery	1,700		
Advertisements	5,600		
Cash with Nath Bank Ltd.	4,000		
Investments at 9% p.a.	17,500		
Furniture as on 1-1- 2006	900		
Discount	3,770		
General Expenses	1,960		
Audit Fee	350		
Fire Insurance Premium	300		
Travelling Expenses	1,165		
Postage and telegrams	435		
Cash in hand	190		
Drawings	5,000		
	2,21,370		2,21,370

Adjustments:

1) Value of stock as on 31-12- 2006 was Rs. 39,300.
2) Purchases include furniture purchased on 30-6- 2006 for Rs. 1,000.
3) Depreciation is to be provided on furniture at 10% per annum.
4) Provide for interest payable to Dena Bank and for interest receivable on investments.
5) Provide Reserve for Doubtful Debts at 5%.

(B.Com. Osm.)

(Ans. Gross Profit Rs. 29,450; Net Profit Rs. 7,800; Balance Sheet Total Rs. 75,000)

Hint: Interest on Loan from Dena Bank for one year, Rs. 1,200, interest

already paid is Rs. 450, hence outstanding interest is Rs. 750. Interest on investment for one year amounts to Rs. 1,575. Interest already received Rs. 725, so interest still receivable is Rs. 850. Deduct Rs. 1,000 from purchases in Trading Account and add Rs. 1,000 to Furniture. Depreciation on furniture on Rs. 900 for one year and on Rs. 1,000 for 6 months.

13) From the following Trial Balance of Shri Vinay Bhushan prepare Trading and Profit and Loss Account for the year ended 31st December, 2006 and Balance Sheet as on that date.

	Dr. Rs.	Cr. Rs.
Stock on 1-1- 2006	24,200	
Cash in Hand	4,000	
Cash at Bank	12,900	
Lease hold premises (lease for five years commencing from 1st July 2006	20,000	
Machinery	30,000	
Furniture	15,000	
Buildings	50,000	
Drawings	5,000	
Capital		1,60,000
Purchases and Sales	96,000	1,45,000
Debtors and Creditors	50,000	40,000
Returns	3,000	4,300
Freight	6,000	
Wages	17,500	
Trade Expenses	5,000	
Salaries	12,000	
Printing and Stationery	1,800	
Bad Debts	4,000	
Reserve for Bad Debts		4,000
Rent Recoverable	1,900	
Rent Received		5,000
	3,58,300	3,58,300

You are required to make the following adjustments.

a) Stock on 31-12- 2006 was valued at Rs. 45,600.
b) Write off Rs. 2,400 as bad debts and make a provision for doubtful debts at 5% on Sundry Debtors.

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c) Sundry Loose tools were made by the firm's workmen to whom Rs. 2,500 were paid as wages and included in wages account. For tools, materials worth Rs. 3,000 were used out of purchases.

d) Charge depreciation on machinery @ 10% and on Buildings @ 2½%

e) Calculate interest on capital and on drawings @ 5% per annum.

(B.Com. Osm.)

(Ans. Gross Profit Rs. 53,700; Net Profit Rs. 21,120 Balance Sheet Total Rs. 2,23,870)

14) The following balances were taken from the books of Sri Ram Prasad on 31st December 2006

	Rs.		Rs.
Capital	1,00,000	Rent (Cr.)	2,100
Drawings	17,600	Railway freight and	
Purchases	80,000	other expenses on	
Sales	1,40,370	goods sold	16,940
Purchases Returns	2,820	Carriage Inwards	2,310
Stock (1-1-2006	11,460	Office expenses	1,340
Bad Debts	1,400	Printing and Stationery	660
Bad Debts Reserve (1-1-06	3,240	Postage & Telegrams	820
Rent and Insurance	1,300	Sundry Debtors	62,070
Discount (Cr)	190	Sundry Creditors	18,920
Bills Receivable	1,240	Cash in hand	2,210
Sales Returns	4,240	Cash at Bank	12,400
Wages	6280	Office Furniture	3,500
Buildings	25,000	Salary and Commission	9,870
		Additions to buildings	7,000

Prepare Trading and Profit and Loss Account and Balance Sheet as on 31st December 2006 after keeping in view the following adjustments.

Depreciation old building at $2^1/_2$% and new additions to building at 2% and office furniture at 5% (2) Write off further bad debts Rs. 570. (3) Increase the bad debts reserve to 6% of debtors. (4) On 31st December 2006 Rs. 570 are outstanding for salary. (5) Rent receivable Rs. 200. (6) Interest on capital at 5%. (7) On 31st December 2006 stock is valued at Rs. 14,290. (8) Unexpired insurance Rs. 240.

(B.Com. Punjab)

(Ans. Gross Profit Rs. 53,190; Net Profit Rs. 16,060; Balance Sheet Total Rs. 1,22,950)

15) From the following Trial Balance of Shishir, you are required to prepare Final accounts for the year ended 31st March, 2006 after making the necessary adjustments.

	Debit Rs.	Credit Rs.
Capital and Drawings accounts	10,000	2,00,000
Freehold Property	60,000	
Plant and Machinery	1,00,000	
Salaries	14,000	
Printing and Stationery	2,000	
Furniture and Fixtures	4,000	
Discount	1,500	
Bills Payable		5,700
Debtors and Creditors	25,000	40,000
Insurance	3,000	
Bad Debts	600	
Office Rent	2,600	
Loose Tools	2,000	
Provision for Doubtful Debts		4,800
Loan to Sudhir at 10% on 1st Oct. 2005	40,000	
Interest on Loan to Sudhir		1,000
Cash at Bank	25,000	
Cash on Hand	10,500	
Stock on 31st March 2006	74,000	
Trading Profits		1,17,200
Outstanding Wages, 31st March 2006		500
Insurance claim received for loss		5,000
	3,74,200	3,74,200

Adjustments:

1) Outstanding Salaries Rs. 700
2) Prepaid Insurance Rs. 400.
3) Value of loose tools on 31st March 2006 Rs. 1,500.
4) A new machinery was purchased on credit and installed on 28th February 2006 costing Rs. 15,000. No entry for the same has yet been made in the books.
5) Depreciate (on closing balance) :
   Plant and Machinery at 10%.
   Furniture and Fixtures at 5%.
6) The provision for doubful debts is to be maintained @ 5%.

(C.A.I.I.B.)

(Ans. Net Profit Rs. 91,550; Balance Sheet Total Rs. 3,43,450).

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16) Mr. A carried on business under the name of A & Co. From the following information, prepare the final accounts for the year ended 31st December 2006

Trial Balance

Name of Account	Debit Balance Rs.	Credit Balance Rs.
Mr. A's Capital account		1,19,460
Mr. A's Drawings account	10,550	
Bills Receivable	9,500	
Plant and Machinery	28,800	
Sundry Debtors (including B for dishonoured bill Rs. 1,000)	62,000	
Loan Account at 6% (Interest paid upto 31st October, 2006		20,000
Wages	40,970	
Returns Inwards	2,780	
Purchases	2,56,590	
Sales		3,56,530
Commission received		5,640
Rent and Taxes	5,620	
Stock	89,680	
Salaries	11,000	
Travelling Expenses	1,880	
Insurance (including premium of Rs. 300 per annum paid upto June, 2007	400	
Cash	530	
Bank	18,970	
Repairs and renewals	3,370	
Interest and Discount	5,870	
Bad Debts	3,620	
Sundry Creditors		59,530
Furniture & Fixtures	8,970	
	5,61,100	5,61,100

Stock in hand on 31st December 2006 was Rs. 1,28,960. Write off half of B's dishonoured bill, create a reserve for doubtful debts at 5% allow 6% interest on Capital; Wages include Rs. 1,200 for erection of machinery purchased last year.

Depreciate Plant and Machinery by 10%. Furniture is revalued at the end of the year at Rs. 8,073. Provide for commission not received Rs. 600.

(C.A.I.I.B.)

(Ans. Gross Profit Rs. 96,670; Net Profit Rs. 57,683; Balance Sheet Total Rs. 2,52,233)

17) Bose gives you the following Trial Balance as at 31st December 2006

Debit Balances	Rs.	Credit Balances	Rs.
Purchases (Adjusted)	6,89,200	Capital	48,500
Salaries	11,900	Sales	7,40,000
Carriage	900	Discount	900
General Expenses	900	Expenses unpaid	700
Buildings	30,000	Sundry Creditors	21,200
Furniture	6,000		
Prepaid expenses	200		
Sundry debtors	8,000		
Depreciation			
Buildings 600			
Furniture 600	1,200		
Cash	1,750		
Stock (31st December 2006	56,250		
Dutt's Suspense A/c.	5,000		
	8,11,300		8,11,300

Dutt's Suspense Account represents cash sent to Dutt for a joint venture. Dutt has sent intimation that the venture has resulted in a profit of Rs. 4,000 of which Bose's share is Rs. 1,000. This remains to be adjusted in books.

Prepare for the business of Bose Trading and Profit and Loss Account for 1985 and Balance Sheet as at the end of the year.

(B.Com. Delhi)

(Ans. Gross profit Rs. 49,900, Net Profit (Including share from joint venture) Rs. 37,800, Balance Sheet Total Rs. 1,08,200).

Hint: Bose's share of profit on joint venture should be credited to profit and loss account. Dutt's Suspense Account will appear in balance sheet on assets side at Rs. 6,000 (Rs. 5,000 old balance plus Rs. 1,000 Bose's share of Profit payable by Dutt.)

18) From the following Trial Balance of Shyam Hardikar, as at 31st December, 2006 you are required to prepare Profit and Loss Account for the Year ended on that date and Balance Sheet as at that date.

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	Dr. Rs.	Cr. Rs.
Salaries	25,000	
Rent and taxes	5,000	
Fire Insurance Premium (paid upto 30th June, 2007	8,000	
General Expenses		60,000
Capital		70,000
Gross Profit		
Loan from Abhijeet taken on 1st July, 2006 @ 10% p.a.		20,000
Sundry Creditors	80,000	44,000
Plant and Machinery	40,000	
Sundry Debtors		1,000
Dividends on shares		18,000
Provision for Depreciation	15,000	
Cash and Bank Balances	25,000	
Closing Stock	4,000	
Goods lost by fire		2,000
Outstanding Salaries	2,000	
Free distribution of samples	6,000	
Investments in shares	2,15,000	2,15,000

The following information is relevant:

1) Sundry Debtors include an account of Sudheer for Rs. 4,000 for dishonoured bill. Nothing is likely to be received from him.
2) Rs. 3,000 paid as donation to Prakash Education Society stands debited to Society's account, included in Sundry Debtors.
3) Sundry Creditors include an amount of Rs. 4,000 received from Sarat and credited to his account. The amount was written off as bad debts in a previous year.
4) Sundry Debtors and Sundry Creditors both include the account of Mr. Tarun showing debit and credit respectively of Rs. 3,000 and Rs. 2,000.
5) The proprietor has withdrawn Rs. 400 per month, it has been included in Salaries Account.
6) Rs. 10,000 was added to Plant and Machinery on 1st July, 2006. Depreciation @ 10% p.a. on reducing balance has to be provided on Plant and Machinery.

(Ans. Net Profit Rs. 19,600; Balance Sheet Total Rs. 1,35,800)

Hint: Goods lost by fire and Free Distribution of Samples should be debited to Profit and Loss Account. S. Creditors Rs. 38,000; S. Debtors Rs. 31,000. Written down value of Plant and Machinery on 1st January, 2006 Rs. 52,000. Total depreciation Rs. 5,700.

19) From the following Trial Balance, prepare the Trading and Profit and Loss Account for the year ended 31st December 2006 and the Balance Sheet as on that date of Mr. Rama Rao.

	Dr. Rs.	Cr. Rs.
Capital Account		50,000
Provision for Doubtful Debts		3,000
5% Mortgage Loan (taken on 1-1- 2006		45,000
Sundry Creditors		10,960
Bills Payable		8,150
Commission		2,870
Sales		1,22,040
Sundry Debtors	48,000	
Bills Receivable	13,795	
Goodwill	40,000	
Machinery & Plant	55,500	
Stock (1-1- 2006	27,180	
Cash in Hand	860	
Manufacturing Charges	7,840	
Wages	8,000	
Wages unpaid		1,500
Salaries	4,340	
Postage and Telephone	540	
Rent	950	
Stationery and Printing	860	
General Charges	170	
Purchases	29,860	
Interest on Mortgage Loan	1,125	
Returns	3,500	5,000
Bad Debts	1,500	
Depreciation on Machinery	4,500	
	2,48,520	2,48,520

The following adjustments are to be taken into consideration:

a) Closing stock is valued at Rs. 15,000.
b) Provision for doubtful debts is to be made upto 5%.

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c) Intangible asset, if any, is to be written off to the extent of 25 percent.
d) A fire occurred on 5th December 2006 in the godown and stock of the value of Rs. 6,000 was destroyed. It was insured and the insurance company admitted the claim to the extent of Rs. 5,000.
e) Goods worth Rs. 1,000 were used by proprietor at his house.
f) Commission earned but not received amounts to Rs. 600.

(B.Com. Osm.)

(Ans. Gross Profit Rs. 72,660; Net Profit Rs. 50,620; Balance Sheet Total 1,66,355).

20) From the following trial Balance of R. Ramadas as on 31st December 1985 you are required to prepare the Trading and Profit and Loss Account for the year ended 31st December 2006 and Balance Sheet as on that date:

	Dr. Rs.	Cr. Rs.
Capital		60,000
Drawings	7,200	
Stock, 1st January 2006	20,500	
Purchases	68,000	
Carriage Inwards	1,500	
Sales		1,40,500
Sundry Debtors	23,500	
Sundry Creditors		14,300
Cash in Hand	500	
Cash at Bank	2,200	
Carriage Outwards	1,700	
Salaries	16,000	
Factory Rent	4,000	
Bills Receivable	5,300	
Bills Payable		4,200
Insurance	1,200	
Furniture	10,000	
Machinery	28,000	
Office Rent	2,000	
Manufacturing Wages	21,500	
Provision for Doubtful Debts		1,000
Manufacturing Expenses	1,500	
General Expenses	5,400	
	2,20,000	2,20,000

The following adjustments are required:
a) Stock on 31st December 2006 amounted to Rs. 27,000.
b) Write off Rs. 500 as Bad Debts and maintain the Provision for Doubtful Debts at 5% on Sundry Debtors.
c) Unexpired Insurance Rs. 300.
d) Depreciate Machinery by 5% and Furniture by 10%.
e) On 24th December 2006 a fire broke out and destroyed stock of the value of Rs. 10,000. The Insurance company admitted the claim for loss of stock of the value of Rs. 6,000 only and paid the amount on 15th January 2007

(B.Com. Osm.)

(Ans. Gross Profit Rs. 60,500; Net Profit Rs. 27,450 Balance Sheet Total Rs. 98,750)

21) From the following Trial Balance of Mr. Krishna Chaitanya prepare the Trading and Profit and Loss Account for the year ended 31st December, 2006 and Balance Sheet as on that date.

	Dr. Rs.	Cr. Rs.
Capital		25,500
Drawings Account	4,260	
Machinery	5,700	
Stock on 1-1-2006	8,760	
Purchases and sales	62,172	71,436
Returns	1,260	1,746
Salaries Account	2,640	
Rent	720	
Rates and Taxes	1,200	
Apprentice Premium		750
Bank Overdraft		1,200
Bad Debts	1,032	
Sundry Debtors	19,200	
Cash in Hand	288	
Sundry Creditors		6,000
Provision for Doubtful Debts		600
Bills Receivable	1,440	
Bills Payable		1,080
Discount		360
	1,08,672	1,08,672

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You are required to consider for following adjustments:

1) Stock on 31st December, 2006 was valued at Rs. 10,200.
2) Provide at the rate of 5% for doubtful debts on Sundry Debtors and a reserve of 2% for discount on creditors.
3) Rent due was Rs. 160.
4) Taxes of Rs. 320 were paid in advance.
5) Depreciate Machinery at 10% per annum.
6) Apprentice premium of Rs. 120 was to be carried forward.
7) Calculate interest on capital at the rate of 5% per annum.
8) On 15th December, 2006 stock of goods worth Rs. 3,000 were destroyed in a fire accident. It has been insured and the Insurance Company has agreed to pay Rs. 1,500 for the loss of goods.

(B.Com. Osm.)

(Ans. Gross Profit Rs. 14,190; Net Profit Rs. 6,163; Balance Sheet Total Rs. 37,118).

22) The following are the balances extracted from the books of Manoj as on 31st December, 2006

	Rs.
Capital	2,20,000
Drawings	30,000
Purchases	95,000
Returns Inwards	3,000
Buildings	70,000
Sales	1,80,000
Returns Outwards	2,000
Plant and Machinery	1,00,000
Salaries	15,000
Discount allowed	1,000
Sundry Debtors	52,000
Investments at 6% (1-1- 2006	5,000
Cash at Bank	34,000
Bills Payable	5,000
Sundry Creditors	60,000
Stock (1-1- 2006	40,000
Wages	30,000
Prepaid Insurance	1,000
Coal, Gas and Water	2,000
General Expenses (including Insurance)	20,000
Loan from Gupta at 10% (taken on 1st July 2006	50,000

Provision for Doubtful Debts	1,000
Bad Debts	3,000
Factory Rent	2,000
Office Rent	3,000

Adjustments:

1) Stock on 31st December 2006 was estimated at Rs. 60,000.
2) Write off bad debts Rs. 4,000
3) Depreciate Plant and Machinery by 10% p.a.
4) A fire occured on 20th December 2006 in the godown and stock of the value of Rs. 8,000 was destroyed. The Insurance Company admitted the claim in full.
5) The provision for doubtful debts is to be maintained at 5% on Sundry Debtors.
6) Create a Provision for discount on debtors and Reserve for discount on creditors at 2%.
7) A customer's bill for Rs. 2,000 had been discounted with bank for Rs. 1,900. The bank has sent an intimation that the bill had been dishonoured. No entry has yet been passed in the books in respect of this.

Prepare Trading and Profit and Loss Account for the year ended 31st December 2006 and Balance Sheet as on that date.

(Ans. Difference in Trial Balance Rs. 12,000; Gross Profit Rs. 78,000; Net Profit Rs. 18,550; Balance Sheet Total Rs. 3,24,850)

Hints: Goods destroyed by fire, claim admitted by insurance Company will appear in trading account on credit side and again in Balance Sheet on the asset side as 'Amount due from insurance company'. The customers bill dishonoured should be added to sundry debtors and deducted from Bank Balance. The provision for doubtful debts should be calculated on Rs. 50,000 and provision for discount on debtors on Rs. 47,500. Interest receivable on Investments amount to Rs. 300 and interest payable on loan from Gupta amounts to Rs. 2,500. Trial Balance should be prepared. It shows Rs. 12,000 less on the debit side. It should be taken in Balance Sheet on the assets side.

23) The following trial Balance was extracted from the books of Shri V. Balakrishna as on 31st December 2006

Trial Balance

	Rs.		Rs.
Plant and Machinery	20,000	Capital Account	80,000
Manufacturing wages	34,500	Sundry Creditors	44,560
Salaries	15,850	Bank Loan	15,000
Furniture	10,000	Purchases Returns	1,740

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Freight on Purchases	1,860	Sales	
Freight on Sales	2,140	Reserve for Bad Debts	2,50,650
Buildings	24,000		2,100
Manufacturing Expenses	9,500		
Insurance & Tax	4,250		
Goodwill	25,000		
General Expenses	8,200		
Factory Fuel & Power	1,280		
Sundry Debtors	78,200		
Factory Lighting	950		
Stock on 31st December 2005	34,200		
Motor Car	12,000		
Purchases	1,02,000		
Sales Returns	3,100		
Bad Debts	1,400		
Interest and Bank Charges	400		
Cash at Bank	4,200		
Cash in Hand	1,120		
	3,94,150		3,94,150

Prepare the trading and profit and loss account for the year ended 31st December 2006 and the balance sheet as on that date taking into consideration the following information:-

1) Stock on hand on 31st December 2006 was valued at Rs. 30,500.
2) Depreciate Plant and Machinery by 10%, Furniture by 5% and Motor Car by Rs. 1,000.
3) Bring Provision for Bad Debts to 5% on Sundry Debtors.
4) A commission of 1% on the Gross Profit is to be provided for Works Manager.
5) A commission of 2% on Net Profit (after charging the Works Manager's commission) is to be credited to the General manager.

(C.A. Entrance)

(Ans. Gross Profit Rs. 95,700; Net Profit Rs. 55,951; Balance Sheet Total Rs. 1,97,610)

24) On 31st December 2006 the following Trial balance was extracted from the books of Bhaskar.

	Rs.		Rs.
Dr. Balances		Rates, taxes and Insurance	2,891
Drawings	3,000	Advertising	3,264
Sundry debtors	20,100	General expenses	3,489
Interest on loan	300	Bills Receivable	6,882
Cash in hand	2,077	**Cr. Balances**	
Stock on 1st January, 2006	6,839	Capital	28,000
Motor Vehicles	10,000	Sundry Creditors	10,401
Cash at Bank	3,555	Loan on mortgage	9,500
Land and buildings	12,000	Bad debts reserve	710
Bad debts	525	Sales	1,10,243
Purchases	66,458	Purchases returns	1,346
Sales returns	7,821	Discount	540
Carriage Outwards	2,404	Bills Payable	2,641
Carriage Inwards	2,929	Rent received	250
Salaries	9,097		

Prepare Trading and Profit and Loss account for the year ended 31st December, 2006 and Balance Sheet as on that date after making adjustments for the following:

1) Depreciate land and buildings at 2% and motor vehicles at 20%.
2) Interest on loan at 6% p.a. is unpaid for six months.
3) Goods costing Rs. 500 were sent to a customer on sale or return for Rs. 600 on 30th December 2006 and had been recorded in the books as actual sales.
4) Salaries amounting to Rs. 750 and rates amounting to Rs. 350 are outstanding.
5) Prepaid insurance amounting to Rs. 150.
6) The provision for bad debts is to be maintained at 5% on sundry debtors.
7) Provide for manager's commission at 10% on net Profits after charging such commission.
8) Stock in hand on 31st December, 2006 was valued at Rs. 6,250.

(B.Com. Bombay, Punjab)

(Ans. Gross Profit Rs. 33,692; Net Profit Rs. 7,975; Balance Sheet Total Rs. 57,699)

Hints: Goods sold on sale or return treated as sales should be cancelled by reversing the entry made for sale of goods. So, Rs. 600 should be deducted from sales in Trading Account and from sundry debtors in balance sheet. The cost of the gods on approval should be added to closing stock in trading account and also in balance sheet. The net profit before charging commission

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is Rs. 8,772. Manager's Commission = $\frac{10}{110} \times 8{,}772 = 797$

25)* Suresh Awasthi's Trial Balance as at 31st December 2006 was as under:

	Rs.	Rs.
Opening Stock	50,000	
Sales		2,51,000
Purchases	75,000	
Wages	30,000	
Capital		1,10,000
Carriage Inwards	4,000	
Salaries	5,000	
Insurance (including Premium @ Rs. 600 p.a. paid upto 31st March 2007	800	
Cash in Hand	5,000	
Cash at Bank	20,000	
Plant and Machinery	1,40,000	
Discount allowed	2,200	
Debtors and Creditors	50,000	30,000
Furniture	10,000	
Provision for Doubtful Debts		1,000
Loose Tools	8,000	
Repairs and Renewals provision		11,000
Repairs to Machinery	3,000	
	4,03,000	4,03,000

Adjustments:

1) Machinery was purchased on 1st July 2006 for Rs. 40,000 and was installed by own workmen. The wages for this purpose amounted to Rs. 1,000. The amount is included in Wages Account.
2) Depreciate plant and machinery by 10% p.a. Furniture by 5%. Loose tools were revalued on 31-12 2006 at Rs. 6,000.
3) The repairs and renewal provisions is to be credited with Rs. 2,000 every year. The actual repairs to Machinery are to be debited to this account.
4) Included in sales is amount of Rs. 15,000 representing goods sold on sale on return basis, the customers still having the right to return the goods. The goods were in voiced showing a profit of 20% on sales.
5) Included amongst the debtors is Rs. 3,000 due from Rajendra and included amongst creditors is Rs. 1,000 due to Rajendra.

6) A provision for doubtful debts is to be maintained at 5% of sundry debtors.
7) The manager is entitled to a commission of 10% on Net Profit after charging his commission.
8) Stock on 31-12 2006 amounted to Rs. 45,000.

(Ans. Gross Profit Rs. 1,35,000, Net Profit Rs. 99,909. Balance Sheet Total Rs. 2,58,900)

Hints: 1) Goods sold on sale or Return basis should not be treated as sales. Rs. 15,000 should be deducted from sales and also from sundry debtors. These goods should be added to

Closing stock at cost price i.e. $\frac{80}{100} \times 15{,}000 = \text{Rs. } 12{,}000$ both in Trading account and also in Balance Sheet. (2) Rs. 1,000 due to Rajendra will be adjusted towards the amount due from Rajendra. Hence, Rs. 1,000 should be deducted both from sundry debtors and sundry creditors, (3) New Provision for Doubtful Debts should be calculated on Rs. 34,000 (Opening Balance Rs. 50,000 less adjustment of sale or return less adjustment towards debt due by Rajendra) (4) From wages Rs. 1,000 should be deducted and added to Plant and Machinery. Depreciation should be calculated on Rs. 1,00,000 for one year and on Rs. 41,000 for six months. (5) Profit and Loss Account should be debited with Rs. 2,000 transferred to repairs and renewals provision every year. In balance sheet on the liabilities side repairs and renewals provision will appear at Rs. 10,000 (Opening balance Rs. 11,000, add transfer of Current year Rs. 2,000 less actual repairs Rs. 3,000). In this problem repairs to Machinery will not appear in profit and loss account because there is a repairs and renewals provision. (6) Net profit before manager's commission is 1,09,900.

Managers Commission is 10/110 x 1,09,900 = Rs. 9,991.

26) The Accountant of M/s Kasturi Agencies extracted the following Trial Balance as on 31st March, 2006

	Dr. Rs.	Cr. Rs.
Capital		1,00,000
Drawings	15,000	18,000
Buildings	7,500	
Furniture & Fittings	25,000	
Motor Car		
Loan from Hari @ 12%		15,000
Interest		450
Interest Paid on above		

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Sales	75,000	1,50,000
Purchases	25,000	
Stock as at 1-4-2005		
Stock as at 31-3-2006	15,000	32,000
Establishment Expenses	2,000	
Freight Inward		
Freight Outward		1,000
Commission received		7,500
Sundry Debtors	28,100	
Bank Balance	20,500	
Sundry Creditors		10,000
	2,28,550	2,68,500

The Accountant located the following errors but is unable to proceed any further:

a) A totalling error in Bank column of Payments side of Cash book where by the column was under totalled by Rs. 500.

b) Interest on loan paid of the quarter ending December 31st, 2005 Rs. 450 was omitted to be posted in the ledger. There was no further payment of interest.

You are required to set right the Trial Balance and to prepare the Trading and Profit and Loss Account for the year ended March 31st, 2006 and the Balance Sheet as at that date, after carrying out the following:

i) Depreciation is to be provided on the assets as following:-

Buildings	2½% p.a.
Furniture & Fittings	10% p.a.
Motor Van	25% p.a.

ii) Balance of Interest due on the loan is also to be provided for.

(C.A. Entrance)

(Ans. Trial Balance Total Rs. 2,32,500: Gross profit Rs. 30,000: Net Profit Rs. 12,775 Balance Sheet Total Rs. 1,20,225)

27) Mahesh gives you the following figures from his books on 30th June 2006

	Rs.		Rs.
Capital	50,450	Buildings	10,000
Trade Creditors	10,000	Plant & Machinery	15,000
Bills Payable	1,000	Book Debts	16,400
swGeneral Reserve	5,000	Bank Balance (Dr.)	3,400
Reserve for bad debts	1,000	Investments 4%	10,000
Sales	75,000	Bills Receivable	2,500

Discount Allowed	750	Wages and Salaries	13,600
Stock (1-7-05	15,000	Repairs and Renewals	1,800
Audit Fees	2,000	Interest Paid	700
Office Expenses	4,500	Bad Debts recovered	200
Purchases	48,000		
Discount received	400		

The trial balance had shown a difference of Rs. 2,500, the debit side being short. It was transferred to Office Expenses A/c. The value of stock on hand on 30th June was Rs. 18,000. During June 2006 there was a fire which destroyed goods worth Rs. 3,500. The insurers admitted claim for Rs. 2,500. This amount had not yet been received and no entries have been passed yet.

Buildings are to be depreciated at 2% p.a. and Plant and Machinery at 10% p.a. Rs. 2,000 to be transferred to General Reserve out of profits, if any. The manager is entitled to a commission of 10% of the net Profits after charging his commission.

The following errors were located:

a) The total of the purchases book in May month was found to be Rs. 1,000 short.

b) A sale of Rs. 500 on credit to a customer in April was posted twice to his account.

c) Rs. 1,000 paid to a creditor was credited to his account.

Prepare Mahesh's Trading Account, Profit and Loss Account and Balance Sheet.

(B.Com. Nagarjuna)

(Ans. Gross profit Rs. 19,500; Net Profit transferred to Capital account Rs. 8,500; Balance Sheet Total Rs. 76,000)

28) Following is the Trial Balance of Mr. Ramna Murthy as on 31-12-2006

	Rs.		Rs.
Cash on hand	2,800	Capital	90,000
Cash at bank	3,000	Sundry Creditors	20,000
Opening Stock	30,000	Bills Payable	15,000
Sales Returns	5,000	Reserve for bad debts	4,000
Purchases	1,50,000	Sales	2,50,000
Carriage Outwards	4,200	Purchase Returns	3,000
Carriage Inwards	6,800	Bank @ 12% (on 1-1-06	10,000
Wages and Salaries	20,000	loan from Sampat	
Establishment charges	12,000	@ 8% (on 1-7-06	8,000
Land and Buildings	40,000	Suspense Account	800
Plant and Machinery	80,000		

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	14,000	
Sundry Debtors	1,000	
Bad Debts		
Bills Sent to bank for collection	4,000	
	6,000	
Bills Receivable	12,000	
Drawings	1,200	
Printing and Stationery		
Insurance Premium Paid (on Proprietor's life)	2,400	
Interest on bank loan	600	
Rates and taxes	800	
Furniture	5,000	
	4,00,800	4,00,800

You are required to prepare the Final Accounts with the following adjustments suitably incorporated.

a) Closing stock in Godown valued at Rs. 40,000.
b) Wages payable Rs. 3,000 and Salaries payable Rs. 1,000.
c) Rates and Taxes Prepaid Rs. 200.
d) On December 31 Goods worth Rs. 5,000 were purchased and a cheque for the same amount was issued on the same day, but the entries were not recorded in the books. However, the goods are included in closing stock.
e) On December 20th credit sales were made for Rs. 4,000 and the entry is recorded in the books. But the goods are not taken away by the customer and they are included in the closing stock.
f) Write off bad debts with a further amount of Rs. 500 and keep the Reserve for doubtful debts @ 5% on debtors.
g) Create a reserve for discount on creditors @ 2%.
h) Write off depreciation @ 5% on buildings, 10% on Machinery and 20% on Furniture.

(B.Com. Nagarjuna & SKD)

(Ans. Gross Profit Rs. 68,200; Net Profit Rs. 39,905; Balance Sheet Total Rs. 1,75,825)

29)* The following is the schedule of balance as on 31-3-2006 extracted from the books of Sri Gavaskar, who carries on business under the name and style of Messrs Gavaskar Vishwanath & Co. at Bombay.

	Dr.	Cr.
	Rs.	Rs.
Cash in hand	1,400	
Cash at Bank	2,600	

Sundry Debtors	86,000	
Stock as on 1-4- 2005	62,000	
Furniture & Fixtures	21,400	
Office Equipment	16,000	
Buildings	60,000	
Motor Car	20,000	
Sundry Creditors		43,000
Loan from Vishwanath		30,000
Reserve for Bad Debts		3,000
Purchases	1,40,000	
Purchases Returns		2,600
Sales		2,30,000
Sales Returns	4,200	
Salaries	11,000	
Rent for godown	5,500	
Interest on loan from Vishwanath	2,700	
Rates & Taxes	2,100	
Discount allowed to Debtors	2,400	
Discount received from Creditors		1,600
Freight on Purchases	1,200	
Carriage Outwards	2,000	
Drawings	12,000	
Printing and Stationery	1,800	
Electric Charges	2,200	
Insurance Premium	5,500	
General Office Expenses	3,000	
Bad Debts	2,000	
Bank Charges	1,600	
Motor Car expenses	3,600	
Capital Account		1,62,000
	4,72,200	4,72,200

Prepare Trading and Profit and Loss Account for the year ended 31st March 2006 and the Balance Sheet as at that date after making provision for the following:

1) Depreciate: (a) Buildings used for business by 5 per cent. (b) Furniture and Fixtures by 10 percent - one steel table purchased during the year

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for Rs. 1,400 was sold for same price but sale proceeds were wrongly credited to sales account. (c) Office Equipment by 15 percent-purchase of a type writer during the year for Rs. 4,000 has been wrongly debited to purchases. (d) Motor car by 20%.

2) Value of stock at the close of the year was Rs. 44,000.
3) One month's rent for godown is outstanding.
4) One month's salary is outstanding.
5) Interest on loan from Vishwanath is payable is 12% per annum. This loan was taken on 1-5-2005
6) Reserve for Bad Debts is to be maintained at 5% of Sundry Debtors.
7) Insurance premium includes Rs. 4,000 paid toward proprietor's Life Insurance policy and the balance of insurance charges cover the period from 1-4-2005 to 30-6-2006
8) Half of the buildings are used for residential purposes of Sri Gavaskar.

(C.A. Entrance)

(Ans. Gross Profit Rs. 71,800; Net Profit Rs. 18,400; Balance Sheet Total Rs. 2,38,000).

30) From the following Trial Balance and other particulars prepare Trading and Profit and Loss Account for the year ended 31-12 2006 and a Balance Sheet as on that date:

	Dr. Rs.	Cr. Rs.
Anup's Capital Account		10,00,000
Drawings of Stock for personal use	1,000	
Balance at Bank	1,76,000	
Motor Vehicles	1,48,000	
Debtors and Creditors	2,96,000	2,32,000
Printing and Stationery	6,600	
Purchases and Sales	24,00,000	31,60,000
Opening Stock	2,40,000	
Provision for Doubtful Debts		5,000
Bad Debts	11,400	
Freehold Premises	8,00,000	
Repairs to Premises	47,600	
General Reserve		2,00,000
Proprietor's Remuneration	20,000	
Wages and Salaries	2,29,000	
Delivery Expenses	99,000	

Administrative Expenses	1,31,400	
Rates and Taxes	15,000	
Drawings	1,00,000	
Last year's Profit and Loss Account Balance		1,24,000
	47,21,000	47,21,000

Adjustments:

1) Stock in hand as on 31-12-1996 Rs. 2,80,000.
2) Depreciation on Motor Vehicle is Rs. 74,000
3) Creditors include a claim for damages of Rs. 20,000 and which was settled by paying Rs. 15,100
4) Unpaid Wages Rs. 1,600
5) Rates paid in advance Rs. 3,000
6) Provision for bad debts is to be reduced to Rs. 3,500
7) The item of repairs to premises included Rs. 20,000 for acquisition of a capital asset.
8) Stock of Stationery in hand on 31-12-96 is Rs. 2,200

(B.Com. Osm)

(Ans. Gross Profit Rs. 5,69,400: Net Profit Rs. 1,96,000 Balance Sheet Total Rs. 16,32,600)

31. From the following Trial Balance of Sri Kiran, prepare Trading and Profit and loss account and Balance sheet.

	Dr. Rs.	Cr. Rs.
Capital		40,000
Freehold Property	10,800	
Depreciation	1,200	
Prepaid Insurance on 1-1-2000	300	
Stock on 1-1-2000	14,360	
Furniture	1,500	
Insurance	3,000	
Sales		80,410
Returns Inwards	1,590	
Purchases	67,350	
Returns Outwards		2,520
Office expenses	5,100	
Bad Debts	1,310	
Carriage Outwards	1,590	
Carriage Inwards	1,450	
Salaries	4,950	
Creditors for expenses		400
Discount received		150

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Debtors	11,070	
Creditors		4,700
Cash at Bank	2,160	
	1,28,180	1,28,180

Adjustments

(a) Stock on hand Rs. 10,700 (including stock of stationery Rs. 200)

(b) Prepaid insurnace was Rs. 330

(c) Office expenses include stationery purchased Rs. 800

(d) Carriage Inwards include carriage paid on purchase of furniture Rs.50

(e) Office expenses include Rs. 1,000 paid for acquisition of freehold property

(f) Debtors include:

(i) Debt due from Rani Rs. 400 considered definitely bad.

(ii) Amount due from Radha Rs. 1000 considered definitely good

(iii) Amount due from Sita Rs. 600 considered very much doubtful

(g) Make provision for doubtful debts at 5%

(B.Com. Nagarjuna

(Ans. Gross Profit Rs. 8,730, Net Loss Rs. 8,494, Balance Sheet Total Rs. 36,606)

32. On 31st December 2006 the Trial Balance of Veerendra Tiwari was as follow

Debit Balance	Rs.	Credit Balance	Rs.
Stock on 1-1-2006		Capital Account	1,40,000
Raw Materials	15,000	Sundry Creditors	10,000
Work-in-Progress	10,000	Sales	1,70,000
Finished goods	12,000	Bills Payable	4,000
Carriage on purchases	2,000	Commission	1,800
Bills Receivable	10,000	Sale of Scrap	1,200
General Expenses	5,000		
Lighting	3,000		
Office Rent	3,000		
Office Furniture	10,000		
Sundry Debtors	30,000		
Wages	15,000		
Salaries	20,000		
Postage & Telegrams	2,000		
Repairs to Plant	2,000		
Repairs to office furniture	1,000		
Purchase of Raw Materials	90,000		
Cash at Bank	15,000		
Plant and Machinery	82,000		
	3,27,000		3,27,000

The following additional information is available:

1) Stock on 31-12-2006 were :

	Rs.
Raw Materials	20,000
Work-in-Progress	22,000
Finished goods	15,000

2) Salaries and wages unpaid for December 2006 were respectively Rs. 1,500 and Rs. 3,500.

3) Machinery is to be depreciated by 10% and Office Furniture by 5%.

4) Lighting is to be charged as to 2/3 to factory and 1/3 to office.

Prepare the Manufacturing Account. Trading Account and Profit and Loss Account and the Balance Sheet relating to 2006

(Ans. Cost of goods manufactured Rs. 1,04,500; Gross Profit Rs. 68,500; Net Profit Rs. 36,300 and Balance Sheet Total Rs. 1,95,300)

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CHAPTER - 6.

Consignment Accounts

To consign means to send. In accounting terminology the term 'Consignment' is used in connection with a special form of trading under which one person sends goods to another, to be sold by him on behalf of and at the risk of the person who send them. The person who sends the goods is called ' Consignor' or 'Principal'. The person to whom the goods are sent is called 'Consignee' or 'Agent' and the goods so sent are called 'Goods sent on consignment'. The accounts relating to such transactions are called 'Consignment Accounts'.

When the goods are sent on consignment, the Consignee does not purchase the goods, merely the possession is transferred to him. The ownership of the goods remains with the consignor until they are sold. The consignee does not become their owner even though they are in his possession. The consignee is not responsible for any loss on sale of goods or for damage or destruction to goods in his possession. The consignee will try to sell the goods according to the instructions of the consignor and will deduct the expenses incurred by him and also commission for making the sales. The amount of the sale proceeds after deducting expenses and commission is remitted to the consignor. The remuneration payable to consignee is generally fixed on the basis of a commission on sales. Usually, the consignee recovers from the consignor all expenses incurred by him on consignment. It is also usual for the agent to give an advance to the Principal in the form of a bank draft or a bill of exchange drawn on the consignee by the consignor. It is adjusted against the sale proceeds of the goods. As the consignee does not buy the goods, the consignor does not send him an invoice, which is made out when goods are sold. He sends a statement called 'Proforma Invoice' which looks like an invoice, but is not an invoice. It is called 'Proforma Invoice' because it is invoice for the sake of form. The purpose of sending proforma Invoice is to inform the agent the particulars regarding the price, the quantity and description of the goods.

Periodically, the agent sends to the principal a statement called 'Account Sales' showing the sales made, expenses incurred on behalf of the Principal, the commission earned by the agent, and the balance due to the principal. The specimen of Account Sales is given below.

Account Sales of 100 Good View Television Sets received from and sold on account of Best Vision Co. Ltd.

		Rs.	Rs.
100 Good View Television sets @ Rs. 10,500 each			10,50,000
Less expenses incurred			
Freight and Cartage	15,000		
Godown Rent	3,000		
Insurance	2,000		
		20,000	
Less Commission @ 10% on Rs. 10,50,000		1,05,000	1,25,000
Less amount already remitted through bank draft			9,25,000
Balance due, Bank Draft enclosed			2,00,000
			7,25,000

E. & O.E.

Hyderabad — For Vijaya Electronics

10th December, 1995 — Signed.....

(E.&O.E. means 'Errors and omissions excepted' in other words errors may be rectified later.)

Distinction between 'Sale' and 'Consignment'

Basis	Consignment	Sale
1. Ownership	Ownership remains with the consignor	Ownership is transferred to the buyer
2. Return of goods	Goods may be returned by consignee at any time.	Goods once sold cannot be returned to the seller unless they are defective or the seller agrees to take those back.
3. Multual Relation	The relation is that of Principal and agent	The relation is that of seller and buyer.
4. Risk	Risk is not transferred to the consignee. If the goods are destroyed or lost on consignment, the consignor has to bear the lass.	After sale, risk is transferred to the buyer. When the goods are destroyed after sale, the buyer has to bear the loss.

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5.	Sales Expenses	The expenses incurred by the consignee are recovered from the consignor.	After sale expenses incurred by the buyer have to be borne by him.
6.	Payment	As and when goods are sold, otherwise no payment is due.	Payment become due immediately on sale or as agreed.
7.	Invoice	Consignor sends 'Proforma Invoice' to the consignee along with the goods.	Seller sends the usual 'invoice' to the buyer.
8.	Account Sales	The consignee periodically sends account sales to the consignor.	No such statement is prepared in case of sale
9.	Commission	Consignee gets commission on the goods sold by him.	Buyer may get discount from the seller on the purchases made by him.

Difference between Proforma Invoice and Account Sales.

1) A Proforma invoice is sent by consignor to the consignee, whereas Account Sales is sent by the consignee to the consignor.

2) A Proforma invoice gives the description, quantity and price of the goods sent. On the other hand, an account sales gives the particulars of gross sales effected by the consignee, expenses incurred by, and commission due to the consignee, advance given by the consignee to the consignor and the net amount due from consignee to the consignor.

3) A proforma invoice is sent only once along with the goods sent. But Account Sales is sent on the completion of Sales or Periodically i.e. as and when the goods are sold.

4) A Proforma invoice does not make the consignee responsible to pay the amount stated therein to the consignor. But an account sales makes the consignee responsible to pay the amount stated therein to the consignor.

5) A Proforma invoice does not serve as the basis for making entries. But an Account sales serves as the basis on which the consignor makes entries in his books in respect of consignment transactions.

Accounting Treatment

In the books of consignor

In order to record the Consignment transactions in his books, the consignor maintains the following accounts. (1) Consignment Account (2) Consignee's Account (3) Goods sent on Consignment Account and (4) Consignment Stock Account.

Consignment Account :

The consignor will be interested in knowing the profit or loss on each consignment separately. In order to know the profit or loss on each consignment separately, the consignor maintains a separate Consignment Account for each consignment. Each Consignment Account is kept distinct from the other by using the name of the consignee or the name of the consignee's place. Consignment Account is a Nominal Account. In fact it is a combined Trading and Profit and Loss Account related solely to the consignment. It is debited with the cost of the goods sent on consignment and all expenses incurred on the consignment by the consignor and consignee. It is credited with the gross sale proceeds and the value of unsold consignment stock. Then it is balanced. The balance of the consignment Account represents the Profit or Loss on consignment. If the credit side is more than the debit side, the balance represents profit on the other hand, if the debit side is more than the credit side, the balance represents the loss. the profit or loss on consignment is transferred to Profit and Loss A/c.

Consignee's Account :

In order to find out the balance due from each consignee, the consignor maintains a separate account for each consignee. This is a personal account. It is debited with the gross sale proceeds and credited with the advance received from him, expenses incurred by him on the consignment and commission due to him. The balance of this account shows the final amount due from him. He may settle the account by sending a bank draft. If he does not settle the account, his account will show a debit balance, which indicates that the consignee is a debtor of the consignor.

Goods sent on Consignment: This is a real account. As this account is credited with the cost of the goods sent, it will show a credit balance. At the end of the accounting period the credit balance will be transferred to Trading Account.

Consignment Stock Account: This is also a real account. If all the goods sent to consignee are not sold, the unsold stock lying with consignee is valued and brought into account by debiting Consignment Stock Account and crediting Consignment Account. At the end of the year, it will be shown on the assets side of the Balance Sheet of the Consignor.

The Consignor may price the goods sent on consignment either at 'cost price' or at a higher price which is called 'Invoice Price'. The accounting procedure in two cases is slightly different. Therefore, we have discussed them separately.

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Cost Price Method:

Journal Entries in the books of consignor.

1. For goods sent on Consignment :
   Consignment A/c
   To Goods sent on Consignment A/c ... Dr.
   (With cost of the goods sent)

2. For expenses incurred by consignor :
   Consignment A/c.
   To Bank A/c ... Dr.

3. For advance given by the consignee :
   Bank / Bills Receivable A/c
   To Consignee's Account. ... Dr.

   If the consignor gets the bill discounted with bank.
   Bank A/c ... Dr.
   Discount A/c ... Dr.
   To Bills Receivable A/c

4. For the sales made by consignee.
   Consignee's A/c
   To Consignment A/c ... Dr.
   (With gross sales proceeds)

5. For expenses incurred by consignee
   Consignment A/c
   To Consignee's A/c ... Dr.

6. For Commission payable to consignee
   Consignment A/c
   To Consignee's A/c ... Dr.

7. For Consignment Stock
   Consignment Stock A/c
   To Consignment A/c ... Dr.

8. For Profit on Consignment
   Consignment A/c
   To Profit and Loss A/c ... Dr.

   Note:- In case of loss, the above entry is reversed

9. For closing the goods sent on consignment A/c
   Goods sent on Consignment A/c
   To Purchases / Trading A/c ... Dr.

Note:- Goods sent on consignment Account is transferred to Purchases Account in case of Trading concerns and to Trading Account in case of Manufacturing concerns.

10. For the remittance from Consignee in settlement of Account.
    Bank/Bills Receivable A/c
    To Consignee's A/c. ... Dr.

The Ledger accounts will appear as follows

Consignment to..... Account

Dr.	Rs.		Cr. Rs.
To Goods sent on Consignment A/c	x x x	By Consignee's A/c – Sale proceeds	x x x
" Bank-expenses of Consignor	x x x	" Consignment Stock A/c	x x x
" Consignee's A/c Expenses of Consignee	x x x	" Profit & Loss A/c– (loss, if any)	x x x
" Consignee's A/c Commission			
" Profit & Loss A/c– Transfer of Profit	x x x		

Dr. Consignee's Account Cr.

	Rs.		Rs.
To Consignment A/c Sale Proceeds	x x x	By Bank/Bills Receivable A/c: Advance	x x x
		" Consignment A/c: expenses of consignee	x x x
		" Consignment A/c: Commission	x x x
		" Bank – (if payment is made)	x x x
		" Balance – (if the amount is not paid)	x x x

Dr. Goods Sent on Consignment Account Cr.

	Rs.		Rs.
To Trading A/c transfer	x x x	By Consignment A/c	x x x

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Dr. **Consignment Stock Account** **Cr.**

	Rs.		Rs.
To Consignment A/c	x x x	By Balance c/d	x x x
To Balance b/d	x x x		

Accounting treatment in the books of Consignee :

The consignee is not concerned with Profit or Loss made on consignment. Hence, he will not open Consignment Account. The main account opened in the books of consignee is the personal account of the consignor. This account is opened to know the amount due to the consignor. This account is debited with the advance given to the consignor, expenses incurred by the consignee on consignment and the commission due to the consignee. It is credited with the gross sale proceeds. The balance of this account represents the amount due to the consignor. If the amount due is paid, then the account is automatically closed. If the amount is not paid, then this account will show credit balance. This indicates that the consignor is the creditor of the consignee to the extent of the credit balance. The following journal entries are passed in books of the Consignee.

1. For the advance given by the Consignee to the Consignor
   Consignor's A/c ... Dr.
   To Bank/Bills Payable A/c.
2. For expenses incurred by consignee
   Consignor's A/c ... Dr.
   To Bank A/c
3. For the sales made by consignee
   Bank A/c ... Dr.
   To Consignor's A/c
4. For Commission receivable by consignee:
   Consignor's A/c ... Dr.
   To Commission
5. For final remittance to consignor :
   Consignor's A/c ... Dr.
   To Bank/Bills payable A/c

Note: In the books of consignee, journal entries for the following transactions will not be passed (1) For receiving the goods on consignment (2) expenses of consignor (3) Discounting of bill by consignment (4) Consignment stock (5) profit or loss on consignment.

Consignor's Account will appear as follows

Consignor's Account

Dr.	Rs.	Cr.	Rs.
To Bank/Bill Payable A/c		By Bank-	
Advance	x x x	Sale Proceeds	x x x
Bank-expenses of Consignee	x x x		
Commission	x x x		
Bank/Bills Payable (if payment is made or bill accepted)	x x x		
Balance c/d	x x x		
(Amount due is not paid)			

Commission Payable to Consignee

Consignor pays commission to consignee for selling his goods. The commission payable by the consignor may be of the following types (i) Commission or 'Ordinary' Commission (ii) Over-riding Commission and Del-credere Commission.

(1) **Commission or ' ordinary' commission:** It is given at a fixed percentage on the total sales made by the consignee.

(2) **Over -riding or special commission:** The commission is given to the consignee by the consignor as extra incentive for making more sales or effecting sales at a higher price. This commission is also calculated on total sales. Usually, it is given at a higher percentage of the extra price realised i.e. surplus.

(3) **Del-Credere Commission:** In addition to the ordinary commission if extra commission is given to the consignee to make him responsible for bad debts, then the additional commission is called 'Del-Credere Commission'. Like ordinary commission, this is also given on total sales. If Del-credere commission is not given then the consignor will have to bear the loss due to bad debts.

Example: Vasu sends goods on consignment to Dheeraj. The terms are that (i) Dheeraj will receive 10% commission on Invoice price (which is cost plus 25%) (ii) 20% of any price realised above invoice price and 5% Del Credere Commission. Vasu sends goods whose cost is Rs. 40,000. Dheeraj sold 3/4th of the goods for Rs. 60,000. Ascertain the commission payable to Dheeraj.

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Invoice Price of the goods sent on consignment (Rs. 40,000 + 25%) 50,000

Invoice Price of the goods Sold 3/4 X 50,000 37,500

(i) 10% commission on Invoice Price of the goods sold (10% of Rs. 37,500) 3,750

(ii) 20% of Price realised above invoice Price
Sales less Invoice Price 60,000-37,500=22,500
20% of Rs. 22,500 4,500

(iii) 5% Del-Credere Commission 3,000

Commission Payable 11,250

2. Valuation of Consignment Stock at Cost :

The stock left with the consignee is valued at cost price or market price, whichever is less. The 'Cost Price' for the purpose of valuation of consignment stock does not mean only the cost at which the consignor purchased or manufactured the goods. It includes all proportionate **' non-recurring or direct expenses whether paid by the consignor or consignee.** The term 'non-recurring expenses' or 'direct expenses' is used for such expenses which are incurred for bringing the goods in saleable condition or such expenses which normally increase the value of goods. In other words, all expenses which are incurred for moving the goods from consignor's premises to consignee's godown are treated as direct expenses and should be considered while valuing consignment stock.

Examples of non-recurring expenses are:

(i) Freight (ii) Packing (iii) Carriage or Cartage (iv) Insurance on goods sent (v) Dock Dues (vi) Loading and unloading charges (vii) Import or Customs Duty (viii) Octroi (ix) Carriage or Cartage paid by consignee to move the goods to his godown etc.

Recurring expenses are those expenses which are incurred after the goods have reached the place of consignee and are mostly selling expenses. Such expenses do not increase the value of goods. These expenses should be excluded while valuing consignment stock. Examples of such expenses are (1) Godown rent (ii) Insurance of the godown (iii) Advertising (iv) Salary of salesmen (v) Carriage on sales etc.

Sometimes, the details of the expenses incurred is not given. In such cases, expenses incurred by consignor should be considered for valuing unsold stock and expenses incurred by consignee should be ignored for this purpose.

2) Invoice Price Method (When goods are consigned at invoice price)

Sometimes, to conceal the real Profit from consignee, the consignor invoices the goods at a price higher than the cost price, known as invoice price. In such a case, the entries regarding the goods sent on consignment and consignment stock will be passed at the Invoice Price. To arrive at the correct price, the following adjustment entries will have to be passed in the books of consignor.

1. Goods sent on consignment A/c
   To Consignment A/c ... Dr.
   (With the difference between the invoice price and the cost price of the goods sent on consignment)

2. Consignment A/c
   To Consignment Stock reserve A/c ... Dr.
   (With the difference between the stock valued at invoice price and cost price)

The difference between invoice price and cost price of the goods sent on consignment and in consignment stock is also called **'Loading'.**

When the goods are consigned at invoice price, consignment A/c, and Goods sent on consignment A/c will appear as under :-

Dr. Consignment A/c Cr.

		Rs.			Rs.
To	Goods sent on Consignment A/c (Invoice price)	x x x	By	Consignee A/c – sale proceeds	x x x
"	Bank–expenses of Consignor	x x x	"	Consignment Stock A/c (at invoice price)	x x x
"	Consignee A/c– expenses of consignee	x x x	"	Goods sent on consignment A/c– loading	x x x
"	Consignee A/c- Commission payale to consignee	x x x			
"	Consignment Stock Reserve A/c- loading	x x x			
"	Profit & Loss A/c - Profit	x x x			

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Dr. **Goods sent on Consignment A/c**

		Rs.		
?	To Consignment A/c – loading	-	By Consignment A/c	x x x
"	Trading A/c– Transfer	x x x		
		x x x		

There will not be any change in Consignee's A/c where the goods sent on consignment are recorded at invoice price.

There is no need of making adjustment in the books of consignee, as he is not affected by such treatment.

Valuation of stock under Invoice price method.

when the goods sent on consignment are invoiced at a price higher than the cost price, the consignment stock should be valued at invoice price. The basis is :

	Rs.
Invoice price of the unsold stock	x x x
Add: Proportionate non-recurring expenses of consignor	x x x
Add: Proportionate non-recurring expenses of consignee	x x x

To arrive at the correct profit the stock should be valued at the cost price and the difference between the stock at invoice price and at cost price i.e. 'loading' should be debited to consignment A/c.

EXAMPLE:

Ramakant sends 100 machines on consignment to Satish. The cost of each machine is Rs. 1,300 but the invoice price is Rs. 1,600 each. Ramakant paid Rs. 4,000 towards packing and forwarding charges. Satish sold 80 machines at Rs. 1,800 each. He incurred the following expenses. Freight and Cartage Rs. 6,000, Godown Rent & insurance Rs. 2,000. Ascertain the consignment stock according to Invoice Price, Cost Price and the loading in the stock.

Valuation of Consignment stock at invoice Price.

	Rs.
Invoice Price of 20 machines 20 × 1,600 =	32,000
Add: Proportionate non-recurring expenses of consignor $\frac{20}{100} \times 4{,}000$	800

Add. Proportionate non-recurring expenses of consignee (i.e. freight & cartage) 20/100 × 6,000	1,200
	34,000

Valuation of Consignment stock at cost price.

	Rs.
Cost Price of 20 machines 20 x 1300	26,000
Add: Proportionate non-recurring expenses of Consignor	800
Add: Proportionate non-recurring expenses of Consignee	1,200
Difference between Invoice Price & Cost Price. i.e. loading in consignment stock. Rs. 34,000 less Rs. 28,000 = Rs. 6,000	28,000

Normal Loss:

Loss of stock is said to be normal loss when it is of unavoidable nature and is due to inherent characteristics of commodity. Such Loss may arise due to loading and unloading of goods, cutting the bulk material into small parts, evaporation, drying etc. Suppose 1,000 tonnes of coal are consigned by consignor to consignee. The cost of one tonne is Rs. 350 and non-recurring or direct expenses amount to Rs. 30,000. The total cost comes to Rs. 3,80,000. Some quantity of coal is bound to be coverted into dust due to handling. This is normal loss. No entry as such is passed in the books of the consignor and consignee for such loss, but such loss is considered while valuing unsold stock. Suppose 50 tonnes are lost in handling etc. This is considered to be normal loss. The quantity available for sale is 950 units. The total cost incurred is charged for 950 tonnes. It can be said that cost of 950 tonnes of coal is Rs. 3,80,000 and of one tonne is Rs. 400. If 100 tonnes of coal are left unsold, the value of unsold stock is Rs. 40,000.

Abnormal Loss:

Abnormal loss is that loss which is avoidable, and which does not arise due to the nature of goods. Such loss is caused due to fire, theft, pilferage etc. The value of abnormal loss is calculated in the same way as the value of unsold stock. The following entries are to be passed in the books of the consignor before ascertaining the Profit or Loss on consignment. The entries are:

1) Abnormal Loss A/c Dr.
   To Consignment A/c
   (With the amount of abnormal loss)
2) Insurance Co. A/c Dr.
   To Abnormal Loss A/c
   (with the amount of claim admitted by the insurance company, if the goods are insured)

The balance left in the Abnormal Loss Account is closed by transfer to Profit and Loss Account.

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Illustration 1 (B.Com. Osm.)

Banerji of Mumabi sent 1000 watches costing Rs. 144 each to Sheshu at Secundrabad at an invoice price of Rs. 180 per watch on consignment basis. Sheshu is entitled to a commossion of 10% on the invoice price and 25% on any surplus price realised over and above the invoice price.

Banerjee spent Rs. 720 towards forwarding and insurance charges, Sheshu received the consignment and paid Rs. 1,764 towards freight and Rs. 1,176 towards selling expenses. Sheshu sold 900 watches at Rs. 198 each and sent a bank draft for the amount due to Banerjee.

Your are required to pass the journal entries in the books of Banerji and show consignment Account and Sheshu's Account.

Journal Entries in the Books of Banerji

			Debit Rs.	Credit Rs.
1.	Consignment A/c	Dr.	1,80,000	
	To Goods Sent on consignment A/c			1,80,000
	(Being the invoice price of the watches sent on Consignment)			
2.	Consignment A/c	Dr.	720	
	To Bank A/c			720
	(Being expenses paid on Consignment)			
3.	Seshu's A/c	Dr.	1,78,200	
	To Consignment A/c			1,78,200
	(Being the sale of watches by Sheshu)			
4.	Consignment A/c	Dr.	2,940	
	To Sheshu's A/c			2,940
	(Being expenses paid by Sheshu)			
5.	Consignment A/c	Dr.	20,250	
	To Sheshu's A/c			20,250
	(Being Commission payable to Sheshu)			
6.	Consignment Stock A/c	Dr.	18,248	
	To Consignment A/c			18,248
	(Being Consignment stock Valued at invoice price)			
7.	Goods sent on Consignment A/c	Dr.	36,000	
	To Consigment A/c			36,000
	(Being the Laoding in goods sent on Consignment adjusted)			
8.	Consignment A/c	Dr.	3,600	
	To Consignment Stock Reserve A/c			3,600
	(Being the Loading in Consingment stock adjusted)			
9.	Consignment A/c	Dr.	24,938	
	To Profit & Loss A/c			24,938
	(Being the Profit made on Consignment)			
10.	Bank A/c		1,55,010	
	To Sheshu's A/c			1,55,010
	(Being the amount due from Sheshu received)			
11.	Goods sent on Consignment A/c	Dr.	1,44,000	
	To Purchases A/c			1,44,000
	(Being the balance in goods sent on Consignment transferred to purchases A/c)			

Ledger Accounts

Consignment Account

Dr.	Rs.		Cr. Rs.
To Goods Sent on Consignment A/c	1,80,000	By Sheshu's A/c sales	1,78,200
" Bank - expenses	720	" Consignment Stock A/c	18,248
" Sheshu's A/c - expenses	2,940	" Goods Sent on Consignment A/c Loading in goods sent	36,000
" Sheshu's A/c - Commission	20,250		
" Consignment Stock Reserve - Loading in stock	3,600		
" Profit & Loss A/c - Profit	24,938		
	2,32,448		2,32,448

Sheshu's Account

Dr.	Rs.		Cr. Rs.
To Consignment A/c - Sales	1,78,200	By Consignment A/c -expenses	2,940
		" Consignment A/c Commission	20,250
		" Bank - Payment	1,55,010
	1,78,200		1,78,200

Working Notes:

Valuation of Consignment Stock

	Invoice Price	Cost Price
Price of 100 watches	18,000	14,400
Add Proportionate expenses of		
Consignor $\frac{720}{1000}$ x 100	72	72
Add Propostion freight paid		
by Consignee $\frac{1764}{1000}$ x 100	176	176
	18,248	14,648

Loading in Stock 18,248 - 14,648 = Rs. 3,600

Loading in goods sent on Consignment = Rs. 1,80,000 - 144,000 = Rs. 36,000

Calculation of Commission

Sale price of 900 watches (900 x 198)	1,78,200
Less invoice price of 900 watches	1,62,000
Surplus price above invoice price	16,200
Commission	
On invoice price = 10% of Rs. 1,62,000	16,200
On 25% Surplus of Selling price over Invoice price i.e. 25% of Rs. 16,200	4,050
	20,250

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Illustration

Laxman of Bombay consigned 1,000 barrels of oil costing Rs. 900 per barrel to Amar of Hyderabad. Laxman paid Rs. 60,000 as freight and insurance. 25 barrels were destroyed in transit. The insurance claim was setteled at Rs. 20,000 and was paid directly to consignors. Amar took delivery of the consignemtn and accepted a bill drawn on him by Laxman for Rs. 5,00,000 payable after 3 months paid.

After six months, Amar reported as follows:

i) 750 barrles were sold at Rs. 1,400 per barrel

ii) His expenses were.: unloading Rs. 14,000; Godown Rent Rs. 20,000.

iii) 25 barrrels of oil was lost due to leakage which is considered to be normal. Amar is entitled to a commission of 5% on all sales effected by him. He paid the amount due in respect of the consigment. Prepare Consignment Account. Amar Account and profit and loss Account in the books of Laxman.

Solution **In the books of Laxman**

Dr. **Consignment Account** Cr.

?		Rs.	?		Rs.
	To Good Sent on Consignment A/c	9,00,000		By Abnormal loss	24,000
	" Bank-freight	60,000		" Amar-sale Proceeds	10,50,000
	" Amar- Unloading 14,000			" Consignment Stock	2,00,000
	G. Rent 20,000	34,000			
	" Amar- Commission	52,500			
	" Profit & Loss A/c - Profit	2,27,500			
		12,74,000			12,74,000

Amar

?		Rs.	?		Rs.
	To Consignment A/c - Sale	10,50,000		By Bills Receivable	5,00,000
				" Consignment A/c	
				" Unloading 14,000	
				G. Rent 20,000	34,000
				" ConsignmentA/c	
				- Commission	52,500
				" Bank	4,63,500
		10,50,000			10,50,000

Abnormal Loss Account

Dr.	Rs.		Cr. Rs.
To Consignment A/c	24,000	By Insurance Company	20,000
		Profit Loss A/c	4,000
	24,000		24,000

Profit & Loss Account

	Rs		Rs.
To Abnormal Loss	4,000	By Consignment A/c	2,27,500

Working Notes

Abnormal Loss	Rs.
Cost of 1,000 barrels	9,00,000
Freight	60,000
	9,60,000

$$\text{Cost of 25 barrels} = \frac{9,60,000}{1,000} \times 25 = 24,000$$

Cosignment Stock

Unit		Amount Rs.
1,000	Cost	9,00,000
	freight	60,000
		9,60,000
25	Less : Abnormal Loss	24,000
975		9,36,000
	Add : Non-recuring expenses of consignee	14,000
		9,50,000
25	Less Normal Loss	–
950		9,50,000

Stock at the end 950-750=200 barrels

$$\text{Value of unsold stock} = \frac{9,50,000}{950} \times 200 = \text{Rs. } 2,00,000$$

Short Answer Questions

1. M/s Ram & Co. of Calcutta consigned 100 cases of candles to M/s Hanuman & Co. of Bombay. Prepare an Account Sales from the following particulars.

	Rs.
Gross Sales Proceeds	5,000
Expenses incurred by M/s Hanuman & Co.	
Cartage	10

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Godown Rent
Commission 5 percent

M/s Hanuman & Co. enclosed a cheque for the amount due.

2. C & Co. of Calcutta consigned 100 radios to D & Co. of Delhi to be sold on consignment basis. Prepare an Account Sales from the following particulars :

	Rs.
Gross sales proceeds of 100 radios	50,000
Expenses incurred by D &Co. :	
Cartage	500
Godown Rent	200
Insurance	100
Commission 10%	

D & Co. enclosed a bill at 3 months for the amount due.

3. Radheshyam consigned 100 bales of cloth to Gopal Kishan at Rs. 5,000 per bale. Radheshyam incurred the following expenses.

	Rs.
Packing and forwarding charges	500
Insurance in Transit	2,000

Gopal Kishan received the consignment and sold 80 bales at Rs. 8,000 per bale. They incurred the following expenses.

	Rs.
Freight and Cartage	3,000
Insurance of godown	400
Salesman's salary	1,600

Ascertain the value of consignment stock

(Ans. Rs.1,01,100)

4. Srinath consigned goods costing Rs. 25,000 to Sri Kanth. The recurring and non-recurring expenses on the same amounted to Rs. 5,000 and Rs. 4,000 respectively. Sri Kanth sold 3/4th's of the goods for Rs.35,000. Ascertain the value of unsold stock.

(Ans. Rs. 7,250)

5. Raghavendra sent 2,000 Kgs. of wool to Sanjay on consignment basis. The terms were that Sanjay would get 5%commission plus 2% delcredere commission. Sanjay sold 900 Kgs. at Rs. 80 per Kg. One-quarter of the sales were on credit. One customer failed to pay the amount of Rs.3,000 due from him. Ascertain the commission payable to Sanjay. What entries will be passed in the books of Sanjay for commission and bad debts?

6. Abhay sends goods on consignment to Rajendra. The terms are that Ranjendra will receive 10% commission on the invoice price (which is cost plus 25%)and20% of any price realised above the invoice price. Abhay sends goods whose cost is Rs.20,000. Rajendra sold 3/4th of the goods for

Rs. 30,000. Ascertain the commission payable to Rajendra.

(Ans. Rs. 4,125)

7. Prajwal of Poona consigned goods costing Rs.16,000 to Giri of Hyderabad on consignment basis. Prajwal paid freight Rs. 800, Cartage Rs. 150 and insuranceRs. 50. On theway one-fourth of the consignment was lost by fire and the insurance company admitted the claim to the extent of Rs. 2,500. Ascertain the amount of loss and pass the entry for the same in the books of Prajwal.

(Abnormal Loss Rs. 4,250)

8. 100 tonnes of coal are consigned @Rs. 300 per tonne. Freight and insurance paid by consignor amounted to Rs.2,000. Loss due to loading and unloading of coal is estimated at 5 tonnes. 76 tonnes coal is sold @ Rs. 400. Ascertain the value of unsold stock.

(Ans. Rs. 6,400)

PROBLEMS

1) Ram & Co. of Calcutta consigned 50 cases of goods at Rs. 200 each to Nathan of Bombay. The consignor pays Rs. 200 for insurance and for freight Rs. 300. Nathan sent an account sales showing the gross proceeds at Rs. 24,000. The expenses paid by Nathan were dockdues Rs. 20, Carriage Rs.50 warehousing expenses Rs. 130. He sent the amount due to the consignor after deducting 4% commission. Give journal entries in the books of both the parties.

(B.Com. Osm)

(Ans. Profit Rs. 12,340, Amount paid by Consignee Rs. 22,840)

2) i) The firm of S.C. & Co. of Delhi consigned to Premier & Co. of Rangoon 50 cases of piece goods valued at Rs.350 each.
ii) The consignors paid freight and insurance thereon Rs. 1,800.
iii) They received an advance from Premier & Co. Rs.8,000.
iv) Received an Account Sales from Premier & Co. giving particulars as under :
Gross Proceeds Rs.28,000, expenses of ware housing, carriage, dockdues etc, incurred by them amounted to Rs.900 and their commission to Rs. 1,000.
v) Received bank demand draft for the balance due by them on consignment.

From the above particulars, prepare necessary ledger accounts in the books of the consignors and those of the consignees.

(B.A. Pass Delhi)

(Ans. Profit on consignment Rs. 6,800, Amount remitted Rs. 18,100)

3) A of Ahmedabad sent 50 cases of goods to B of Bombay at Rs.200 per case. Expenses on consignment incurred by the consignor amounted to Rs. 300. B worked as a Del Credere Agent. His ordinary Commission was

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5% and Del Credere Commission 7½%. In due course B sent Account sales to A giving the following information:

(a) Sale proceeds of 40 cases, Rs. 11,000.
(b) Sotck of unsold goods on hand10 cases.
(c) Consignee's expenses amounted to Rs.120.
(d) Consignee charged commission at agreed rates.
(e) A bank draft for Rs.8,000 was sent by B along with the account sales.

Show the necessary accounts in the books of A

(Profit on consignment Rs. 1,265, Balance Rs. 1,505) (B.Com. Osm.)

4) On 1st July 2006 P & Co. sends 300 cases of medicines to Ravi on consignment basis. The cost of each case was Rs. 1,000. P &Co. incurred the following expenses on the consignment : Rs. 750 on railway freight and Rs. 450 on insurance.

200 cases were sold by Ravi uniformly at Rs.2,000 per case. Out of these, 10 cases were sold to a party on credit and this transaction ultimately proved bad. The expenses of Ravi amounted to Rs. 1,200. He sent an account sales on 31stDecember 2006 which revealed that he charged 5% as ordinary commission and 10% as Del Credere Commission. He sent a bank draft for Rs. 90,000.

You are required to prepare Consignment Account, Ravi's Account and Goods Sent on Consignment Account, in the books of P& Co.

(B.Com. Osm.)

(Ans. Consignment Profit Rs. 1,38,000)
(Amount still payable by Ravi Rs. 2,48,800)

Hints : *Consignment stock Rs. 1,00,400.*

5) *Narendra Dube of Poona sent 1,000 units of stainless steel vessels to Uma Shanker of Hyderabad to be sold on consignment basis. The terms were that Uma Shanker would get 5% commission plus 2% del credere commission and be reimbursed for expenses incurred.*

The cost of Narendra Dube was Rs.50 per unit. He incurred Rs. 500 as packing and forwarding charges. On receipt of the consignment, Uma Shanker accepted a bill for Rs. 25,000 payable after three months, Uma Shanker also paid Rs.1,200 as freight and cartage and Rs. 800 as rent and insurance.

Uma Shanker sold 900 units at Rs. 80 per unit. One quarter of the sales were on credit. One customer failed to pay the amount of Rs.2,000 due from him. Uma Shanker remitted the necessary amount toNarendra Dube.Give the necessary ledger accounts in the books of both parties.

(Ans. Profit Rs.19,630, Amount remitted Rs. 39,960, Consingment stock Rs. 5,170)

6) A consigned to B on 1st January, 1990, 500 bales of cotton costing Rs. 100 per bale. Freight charges incurred in the consignment were Rs.5,000. A drew a bill on B for Rs. 50,000 payable on 30th June, 1990 which B accepted. The bill was discounted by A with his banker on 31st January, 1990 at 12% p.a.

B rendered Account Sales to A on 31st March,1990 showing sales of 300 bales for Rs. 80,000 and selling expenses of Rs.5,000. B's Commission was 10%. On this date B remitted to A net amount due to him.

On 31st May, 1990 B sold the balance stock for Rs. 30,000 after incurring expenses of Rs. 4,000. He remitted Rs. 20,000 to A, the balance being treated as commission earned by him. On 30th June, 1990 the bill accepted by B was dishonoured by him and the amount due to the bank was paid off by A along with incidental charges of Rs. 200.

Pass journal entries in the books of A.

(B. Com Sri Venkateswara)

(Ans. Profit Rs. 32,000; Amount due Rs. 50,200)

7) R of Ranchi consigned goods costing Rs. 1,60,000 to B of Bombay. The terms of the consignment were :

(a) Consignee to get a commission of 5 percent on cash sales and 4 percent on credit sales.

(b)Any goods taken over by consignee himself or goods lost through consignee's negligence, shall be valued at cost plus 12½ percent and no commission will be allowed on them.

The expenses incurred by consignor were : Carriage and freight Rs.6,720 and insurance Rs. 3,440. The consignor received Rs. 50,000 as advance against the consignment. After sometime Account sales was received by the consignor showing the following position :

Goods costing Rs. 1,28,000 were sold for cash at Rs.1,40,000 and on credit at Rs. 1,08,000. Goods costing Rs. 8,000 were taken by B and goods costing Rs. 4,000 were lost through B's negligence. The expenses incurred by B were Advertsement Rs. 1,720; other selling expenses Rs. 1080. Show the ledger accounts in the books of R.

(I.C.W.A. Inter)

(Ans. Profit Rs. 98,490, Balance due Rs. 1,97,380)

8) Mazda & Co. of Bangalore consigned goods to Ram and Bros. of Lucknow of the value of Rs.5,000 and invoiced the same proforma at 20% above cost. They paid thereon Rs. 120 for freight and cartage and Rs. 80 for insurance. They drew on Ram & Bros. for Rs. 2,000 as advance against the consignment and sold the bill for Rs. 1,950. They received Account Sales showing that three-fourths of the goods were sold for Rs. 5,200 and Rama & Bros. expenses amounted to Rs. 175 and their commission to Rs.300. The unsold stock was valued at actual cost and a two months' draft was received from Ram and Bros in settlement of account to date.

Cost price – 5,000

Invoice price – ? 20%

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Show the transactions in the books of both the parties.

(B.Com. -Bombay

(Ans. Profit on Consignment Rs.825; Amount due from consignee Rs. 2,725)

9) Krishnan of Madras sent some piece goods to Mukherjee of Calcutta to be sold on behalf of Krishnan, Mukherjee getting a commission (including Delcredere commission) of 10% on sales. All expenses were to be borne by Krishnan. The invoice value of the goods was Rs.30,000 made up at cost plus 20%. Krishnan spent Rs.1,000 on forwardingand packing. Mukherjee paid the following:

	Rs.
Freight and Cartage to godown	3,000
Stores	500
Insurance of godown	300
Miscellaneous	200

At the end of three months Mukherjee reported that he had sold 4/5 of the goods for Rs.30,000. One customer who had bought on credit, failed to pay Rs. 800 due from him. Mukherjee settled his account.

Prepare important ledger accounts in thebooks of both the parties.

(B.Com. Osm.)

(Ans. Consignment Profit Rs. 2,800; amount remitted by Mukherjee Rs.23,000)

10) On 1st January 2006 Badri of Bombay consigned100 cases (cost price Rs.7,500) at a proforma invoice price of 25% profit on Sales to his agent Anil of Allahabad. On the same date Badri paid non-recurring expenses of Rs. 600. On 10th January, Anil took delivery and paid Rs.1,200 for octroi and other duties and remitted Rs.4,000 as an advance against the consignment. On 31st January he sold 80 cases for Rs. 10,500. Anil is entitled to 5% commission on gross sales and 10% on the sales price in excess of the invoice price.

Give journal entries and show ledger accounts in thebooks of both parties.

(B.Com. Himachal- adapted)

(Ans. Consignment Profit Rs. 2,285; amount due by Anil Rs. 4,525)

11) B of Bombay sent 1,000 Radios costing Rs. 240 each to S of Secundrabad at an invoice price of Rs.300 per radio. The radios are to be sold on behalf of B. S is to received a commission of 10% on the invoice price and 25% of any surplus price realised over and above the Invoice Price.

B spent Rs. 1,200 towards forwarding and insurance charges. S received the consignment and paid Rs.2,940 towards freight and Rs. 1,960 towards other selling expenses. S sold 900 radios @ Rs. 330 per radio and sent a bank draft for the amount due to B.

You are required to pass necessary journal entries and show the Consignment Account and 'S' Account in the books of B.

(B.Com. - Osm.)

(Ans. Profit Rs. 41,564; Amount remitted Rs. 2,58,350 Commission Rs. 33,750)

12) Mallikarjuna sends goods on consignment to Ravindra. The terms are that Ravindra will receive10% commission on invoice price (which is cost plus 25%) and 10% of any price realised above the invoice price. Ravindra will meet his expenses himself.

Mallikarjuna sent goods whose cost was Rs.20,000 and spent Rs.2,000 on freight and insurance. Ravindra accepted a bill for Rs.15,000 immediately on receiving the consignment. His expenses were Rs. 400 as rent and Rs. 200 insurance of godown. Ravindra sold 3/4 of the goods for Rs. 25,000. Part of the sales were on credit and one customer failed to pay Rs. 500 due from him. Prepare the necessary ledger accounts in books of Mallikarjuna and Ravindra.

(Ans. Profit Rs. 5,500; Amount due by Ravindra Rs. 7,000).

Hints : (1) Commission payable to Ravindra Rs. 2,500. (2)Expenses incurred by Ravindra is not to be charged to Consignment Account as Ravindra has agreed to bear the expenses himself. (3) As the Consignee does not get Delcredere Commission, the loss arising due to insolvency of the customer is to be borne by Consignor. Consignment Account should be debited and Ravindra's Account credited with Rs. 500.

13) On 1st April, 1994 the Consignment to Nanded A/c in the books of Unique Clock Makers, Dharwar showed a debit balance of Rs. 3,750. This represented invoice valueof 50 clocks at 25% above cost.

On 7th April, they sent another 2,500 clocks at a proforma invoice price of Rs. 75 each which was 25% above cost. They paid for packing Rs.1,000, Insurance Rs. 500 and carriage and frieght Rs.3,000. Consignee received the clocks on 21st April and paid for clearing Rs. 3,000 andsent a three months bill of exchange for 50% of the invoice price. On 15th June they returned 50 clocks being defective, they paid freight and insurance Rs.90.

By the end of 31st December, 1994 they had sold the opening stock of 50 clocks at Rs. 85 each and 2,400 clocks of the remaining at Rs. 90 each. Their expenses were : Advertising Rs. 2,000; Salary Rs. 2,000 and Service Charges Rs.500. Deducting their expenses and commission at 8% on sales,consignees sent a Demand Draft for the remaining balance. Show the Consignment Account in the books of consignor.

(B. Com. Osm.)

(Ans. Profit Rs.43,690)

14) I. Srinivas of Hyderabad purchased 10,000 meters of cloth for Rs.2,00,000. 5,000 metres were sent on consignment to Rishikesh at the

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selling price of Rs. 30 per meter. The consignors paid Rs. 6,000 towards freight packing etc. The consignees sold 4,000 meters at Rs.40 per meter and incurred Rs. 2,000 towards sundry expenses. They are entitled to a commission of 5% on total sale proceeds plus 20% on any surplus price realised over Rs.30 per meter.

3,000 meters are sold by I. Srinivas at Hyderabad at Rs.30 per meter. Their expense amounted to Rs. 5,000 owing to fall in the market value,the stock of cloth in hand is to be valued at 10% less than the cost.

Prepare Consignment Account, Consignees Account, Trading and Profit and Loss A/c and in the books of I. Srinivas.

(Ans. Consignment Profit Rs.55,200; Amount due fromConsignee Rs.1,42,000 Netprofit (including consignment) Rs. 76,200)

15) 500 sewing machines were consigned by Mahesh& Co. Bombay to Dinnu and Co. of Hyderabad, costing Rs. 500 each. Expenses incurred by Mahesh & Co. amounted to Rs.5,000. On the way, 5 sewing machines were completely damaged due to bad handling, and insurance company admitted the claim to the extent of Rs.2,000.

Dinnu & Co. took delivery of the remaining sewing machines and incurred non-recurring expenses of Rs. 9,900 and recurring expenses of Rs. 2,100. He sold 450 sewing machines at Rs.700 each. He is entitled to a Commission of 5% on sales. Prepare Consignment Account, Dinnu & Co. account in the books of Mahesh & Co. assuming that Dinnu & Co. remitted amount due by them.

(Ans. Profit Rs. 58,650; Amount paid by Dinnu & Co. Rs. 2,87,250)

Hints :

Consignment Stock.

	Rs.
Cost of 45 Sewing Machines	22,500
Add Proportionate expenses of consignor	450
" Proportionate non-recurring Expenses of Consignee $\frac{45}{495}$ x 9,900 =	900
	23,850

Abnormal Loss :

Cost of 5 Sewing Machines	2,500
Add Proportionate expenses	50
	2,550

16) The Ramesh Oil Mills, Bombay, consigned 40,000 lbs. of castor oil (in 10 lbs tins)to B.N. Chatterjee, Calcutta, on 1st April 2006 The cost of oil was Rs. 2 per lb. The consignors paid Rs.10,000 as freight and insurance. During transit 50 tins were totally destroyed for which the insurance company

paid directly to the consignors Rs. 900 in full settlement of the claim.

B.N. Chatterjee took delivery of the consignment on 10th April and accepted a bill drawn on him by Ramesh Oil Mills for Rs. 20,000 for three months. On June 30th, 2006 B.N. Chatterjee reported that 35,000 lbs were sold @ Rs.3 per lb; the expenses were as follows: Godown rent Rs. 400; advertisement Rs. 2,000; salaries of salesmen Rs. 4,000.

B.N. Chatterjee charged a commission of 3 percent plus 3 percent Delcredere. He sold Rs. 19,000 worth of oil, the remaining stock to X & Co. who were declared bankrupt after two months and only 50 paise per rupee was realised from them.

Show accounts in the books of both the parties assuming that the consignee paid the amount due by bank draft.

(B.Com - Delhi)

(Ans. Profit on consingment Rs. 21,285; amount received from Chatterji Rs. 90,160)

17) Mohan consigned 400 packets of lip-sticks, each packet containing 100 lip-sticks. Cost price of each packet was Rs.300. Mohan spent Rs. 50 per packet as cartage, freight, insurance and forwarding commission. One packet was lost on the way and Mohan lodged claim with the insurance company and could get only Rs. 270 as claim on average basis. Consignee took delivery of the rest of packets and spent Rs. 19,950 as other non-recurring expenses and Rs. 11,250 as recurring expenses. He sold 370 packets at the rate of Rs.6.50 per lip-stick. He was entitled to 2%commission on sales plus1% del credere commission.

You are required to calculate the cost of stock at the end, cost of abnormal loss and profit or loss on consignment.

(B.Com.Osm.)

(Ans. Profit Rs. 74,035, amount due from consignee Rs. 2,02,085)

18) Miss Rakhi consigned 1,000 radio sets costing Rs.900 each to Miss Geeta, her agent on 1st July 2006 Miss Rakhi incurred the following expenditure on the consignment. Carriage Rs. 650; Freight Rs.7,000 and insurance Rs. 3,250.

Miss Geeta received the delivery of 950 radio sets. An account ofsale dated 30th November 2006 showed that 750 sets were sold for Rs. 9,00,000 and Miss Geeta incurred Rs. 3,000 for carriage and Rs. 7,500 for customs duty at the time of taking the delivery.

Miss Geeta was entitled to a commission @ 6% on the sales effected by her. She incurred expenses amounting to Rs.2,500 for repairing the damaged radio sets.

MissRakhi lodged a claim with the insurance company which was

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...ss Rakhi.

...signment Account and Miss Geeta's

(C.A.Entrace)

(Ans.Profit on consignment Rs.1,52,036, Amount due to Rakhi Rs.8,33,000).

19) Ram Swaroop Mallo Turmeric Mills, Nizamabad, consigned 400 quintals of Turmeric to Nathumal of Gulbarga at Rs.300 per quintal on 1st July 2006 The consignors paid Rs. 6,000 towards freight and insurance. During transit 10 quintals of turmeric was totally destroyed for which the Insurance company paid Rs.1,500 in full settlement of the claim.

Nathumal took delivery of the consignment on 10th July 2006 and accepted a bill drawn on him by Ram Swaroop Maloo Turmeric Mills, Nizamabad for Rs.30,000 for 3 months. On 31st July Nathumal reported that 350 quintals of turmeric was sold at Rs.500 quintal, the expenses being as following:

Godown Rent Rs. 1,000 Advertisement Rs.1,000 Salaries to salesmen Rs.3,000.

Nathumal charged a commission of 5 percent plus delcredere commission of 5%. He sold remaining stock for Rs. 22,500 on credit, who were declared bankrupt after one month and only 50 paise per rupee was realised from them.

Show the Consignment Account and Nathumal's Account in the books of R.S. Maloo Turmeric Mills, Nizamabad.

Answer is wrong

(B.Com. Osm. adapted)

(Ans. Profit Rs. 49,900; Amount remitted by Nathumal Rs.1,42,750)

20) Star Mills Ltd., Surat sends regular consignment of yarn to X who is the selling agent of the Mill and is entitled to a commission of 10 paise per kg. of yarn sold. This includes delcredere commission. The following further information is furnished to you :

On 1st July, 2005 stock of yarn with the agent 20,000 kgs costing Rs. 50,000.

During the year ended 30th June, 2006

Total quantity of yarn consigned 1,60,000 kg. at Rs. 3 per kg. Total quantity of yarn sold 1,50,000 kg at Rs. 3.75 per kg. These includes the opening stock of 20,000 kg. Total remittances by the agent Rs. 5,10,000. Railway freight paid by the agent Rs. 40,000. Of the sales made, X could not collect Rs. 11,000 due to the insolvency of the customer.

5000 kg of yarn were damaged in transit by the railway for which the agent recovered Rs. 6,000. The damaged goods were sold at the rate of 1.50 per kg. Show the following ledger accounts in the books of Star Mills Ltd. for the year ended 30th June, 2006 (a) Consignment Account (b)Goods

damaged in transit Account and (c) x Account

(I.C.W.A. Inter)

(Ans. Profit Rs.75,000; Amount due by X Rs. 10,500)

Hint: Goods damaged in transit valued at Rs.16,250 should be debited and consignment account credited. Goods damaged in transit A/c should be debited with commission on sale of damaged goods Rs.500 and credited with the amount received by X towards damages from Railway Rs.6,000; sale of damaged goods Rs. 7,500 and the balance of Rs. 3,250 should be transferred to Profit & Loss A/c.)

21) Excel Chemical Ltd. Consigned to National Chemicals Company 2,000 kgs. of a chemical. The cost of chemical and freight there on were Rs.18 and Re. 1 per kg. respectively.

An account sales was received from the consignee showing 1,000 kgs. sold at Rs. 32 per kg. Sales expenses amounted to Re. 1 per kg.. Insurance (for transit) Rs.1,000, Brokerage at10% and consignee's commission at $2\frac{1}{2}$%.

They also reported a shortage of weight of 40 kgs. on whole consignment, which was due to the inherent quality of the chemical.

Show the Consignment Account and the Consignee's Account in the books of the Consignor.

(C.A.I.I.B)

(Consignment Profit Rs. 7,102, Amount due by Consignee Rs. 26,000, Consignment Stock Rs. 19,102)

Working Notes:

Valuations of Consignment stock :

	Kg.
Chemical Consigned	2,000
Less Normal Loss	40
Balance	1,960
Less quantity sold	1,000
	960

	Rs.
Cost of the Chemicals Consigned	36,000
Add Freight	2,000
Insurance	1,000
Total Cost of Chemical Consigned	39,000

The Cost of 960 Kgs.will be =

$$\frac{39,000}{1,960} \times 960 = \text{Rs. } 19,102$$

22) Vanaspathi Private Ltd. Poona consigned 10,000 Kg. of Ghee, costing Rs. 20 perkg. to Ramesh & Co. of Madras on 1st January 2006 Vanaspathi

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Private Ltd. Paid Rs.50,000 as freight and insurance. 250 kgs. of ghee were destroyed on 10-1 2006 in transit. The insurance claim was settled at Rs.4,500 and was paid directly to the consignors.

Ramesh & Co. took delivery of the consignment on 20th January 2006, and accepted a bill drawn upon them by Vanaspathi Private Ltd. for Rs.1,00,000 payable after 3 months. On 31st March Ramesh & Co.reported as follows:

i) 7,500 kg. were sold at Rs. 30 per kg.

ii) The other expenses were:

	Rs.
Godown rent	2,000
Wages	20,000
Printing and Stationery including advertising	10,000

iii) 250 kg. were lost due to leakage.

Ramesh & Co. is entitled to a commission of $4^1/_2\%$ on all sales effected by them. Ramesh & Co. paid the amount due in respect of the consignment on 31st March itself.

Show the Consignment Account, the Account of Ramesh & Co. and the loss in transit account in the books of Vanaspathi Private Ltd. for the year ended March 2006

(C.A. Inter)

Hints: **(Consignment Loss Rs.9,559)**

Abnormal Loss:

250Kgs. @ Rs. 20 per kg.	5,000
Add Proportionate freight and insurance	1,250
	6,250

Consignment Stock :

Units		Rs.
10,000	Kgs. @ Rs. 20 per kg.	2,00,000
	Add. Freight and insurance	50,000
		2,50,000
250	Less Abnormal Loss	6,250
9,750		2,43,750
250	Less Normal loss due to leakage	-
9,500		2,43,750

Stock = 9,500 - 7,500 = 2,500 kgs.

Value of 2,000 kgs = $\frac{2,000}{9,500} \times 2,43,750$ = Rs. 51,316

❋

CHAPTER–7

JOINT VENTURE ACCOUNTS

A Joint Venture is a temporary partnership without a Firm Name between two or more persons to undertake a particular venture or business and to share the profits or losses of that venture in an agreed proportion. The joint venture comes to an end as soon as the venture is completed. The venture may be for underwriting shares, construction of building, consigning the goods from one place to another etc. The persons who enter into this agreement are known as co-venturers and their liability is limited to the particular venture taken up by them.

Features of a Joint Venture

(1) It is a temporary partnership and comes to an end after the completion of a particular venture.

(2) It is a particular partnership, as it is for a particular venture.

(3) It does not use Firm Name.

(4) They share profits and losses in agreed proportion, in the absence of agreement for distribution of profits, they share profits and losses equally.

Differences between Partnership and Joint Venture

(1) A Joint Venture does not use a Firm name, but a partnership uses a Firm Name.

(2) A Joint Venture is restricted to a particular operation. It is a terminable venture. Partnership is not restricted to a particular operation. It is a going concern.

(3) In case of Joint Venture, persons carrying on business are called co-venturers. In case of partnership, persons carrying on business are called partners.

(4) In case of Joint Venture, profits are ascertained for each venture, whereas in case of partnership, profits are ascertained annually.

(5) As a Joint Venture is restricted to a particular operation, it is for a shorter duration, but a partnership is generally for a longer duration as it is not restricted to a particular operation.

Differences between Consignment and Joint Venture

(1) In Joint Venture parties to the agreement are known as co-venturers while in consignment they are known as consignor and the consignee.

(2) In case of Joint Venture co-venturers are partners in the venture and share profits or losses of the venture. In case of consignment the consignee is only an agent. He is not a partner, he gets only commission.

(3) In case of joint venture each co-venturer is principal and agent of the co-venture whereas in case of consignment, consignee is only an agent of the consignor.

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(4) In a Joint Venture, all the venturers may buy and sell goods, but in consignment only the consignor buys the goods, and the consignee undertakes only the sale of goods.

(5) A Joint venture may be for the purchase and sale of goods, underwriting of shares etc. or construction of buildings, but consignment is limited or restricted to the sale of goods consigned.

(6) In a Joint Venture, venturer entrusted with the sale of goods may or may not be allowed any commission on sale. But in a consignment, the consignee is allowed commission on gross sale proceeds.

7. In a Joint Venture, the required finance is contributed by co-venturers. But in case of consignment, the finance is contributed only by the consignor.

Methods of Keeping Accounts

Joint Venture accounts can be kept in the manner that will suit the co-venturers in any particular case. The important methods are as follows;

1. When a separate set of books is kept for the Joint Venture.
2. When no separate set of books is kept for the Joint Venture.

I. When separate set of books is kept

Under this method, a complete set of books is used for Joint Venture transactions. The accounting treatment in this method is similar to that of partnership transactions. This method is followed when parties to a Joint Venture are at the same place and when joint venture undertaken is sufficiently large. Under this method, the following accounts are opened,

(1) Joint Bank Account
(2) Joint Venture Account
(3) Personal Accounts of co-venturers.

Joint Bank Account is opened specially for the venutre. The co-venturers will operate this account jointly. This account is just like a Cash book. Amount ccontributed by co-venturers and amount received towards contract price or sale of goods are recorded on the debit side and all payments towards Joint Venture are recorded on the credit side. After the venture is completed this account is closed by making final payments to the co-venturers.

Joint Venture Account is a nominal account in nature and it is prepared to ascertain the profit or loss on joint venture. Goods purchased, goods supplied by co-venturers, expenses incurred etc. are debited to this account and sale proceeds, or contract price received, unsold stock taken by co-Venturers etc. are credited to this account. The balance represents profit or loss on Venture which is transferred to the Co-Venturers Accounts in the profit sharing ratio.

Co-Venturers' Accounts: These are the personal accounts of co-venturers. These accounts are credited with the capital contributed, goods supplied or expenses incurred by the venturer. Goods and Sale proceeds are

taken over by the co-Venturers, are debited to these accounts. The profit or loss made on Venture is transferred to these accounts. These accounts are closed when final payments are made from Joint Bank A/c.

Journal entries to be recorded are as follows:

(1) For Cash contribution by the Co-Venturer
Joint Bank A/c.....Dr.
To Personal Account of each Co-Venturer

(2) For purchases made for the joint venture out of the joint Bank Account
Joint Venture A/c.....Dr.
To Joint Bank A/c

(3) For Goods supplied or expenses incurred by a Co-Venturer
Joint Venture A/c.....Dr.
To Co-Venturer's Personal Account

(4) For expenses towards joint venture paid from Joint Bank
Joint Venture A/c.....Dr
To Joint Bank A/c

(5) For Goods sold for cash or contract price received is deposited in Joint Bank Account
Joint Bank A/c.....Dr.
To Joint Venture A/c

(6) For Shares (or debentures) received as part payment of the contract price
Shares A/c.....Dr.
To Joint Venture A/c

(7) For sale of shares received or taken over by a Co-Venturer
Joint Bank A/c.....Dr
Co-Venturer's Personal A/c.....Dr
To Shares A/c

(8) For transfer of profit on sale or taking over of shares by Co-Venturer
Shares A/c.....Dr
To Joint Venture A/c
Note: In case of loss, the above entry is reversed.

(9) For goods taken over by a co-venturer
Co-Venturer's Personal A/c.....Dr
To Joint Venture A/c

(10) For commission, interest etc. payable to a Co-Venturer
Joint Venture A/c.....Dr
To Co-Venturer's Personal Account

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After passing the above entries, the balance of the Joint Venture Account will show profit or loss on venture. If credit side is more than the debit side there is a profit. If debit side is more than the credit side there there is a loss.

(11) For transfer of profit

Joint Venture A/c ..... Dr

To Personal Account of each Co Venturer

Note: In case of loss, the above entry is reversed

The Joint Bank Account and personal Accounts of co-venturers will show some balance. The sum total of co-venturers personal accounts must be equal to the Joint Bank Account balance. If any co-venturers personal account shows debit balance, he will bring in money. Then the final payment to the co-venturer will be made. The entry is

Personal Account of Each Co-Venturer ..... Dr

To Joint Bank A/c

Note: After passing the above entry Joint Bank Account and personal accounts of co-venturers get closed.

II When separate set of books is not maintained for Joint Venture

When the size of the venture is small and co-venturers are residing at distant places, it is not possible to maintain a separate set of books for the Joint Venture. In such a case, there are two possibilities (1) when record is maintained in one of the parties books and (2) when each co-venturer records transactions affecting Joint Venture.

(1) When record is maintained in one of the parties books

This method is followed when most of the buying and selling on account of Joint venture is done by one co-venturer. Other co-venturers contribute only their share of investment. The accounts opened by him are (i) Joint Venture Account and (ii) personal account of the other co-venturer. Joint Venture account shows the profit or loss made on the joint venture and the personal account of the co-venturer reveals the amount due to him or from him. The journal entries are explained in the form of example. Suppose A and B have entered into a joint venture and records are maintained only in the books of A. Then the journal entries to be passed in the books of A will be as follows.

1. For receipt of cash from B (co-venturer) as his share of investment
   Cash A/c ..... Dr
   To B
2. For the purchase of goods by A
   Joint venture A/c ..... Dr
   To Cash A/c
3. For the supply of goods by A from his stock
   Joint Venture A/c ..... Dr
   To Purchases A/c
4. For the supply of goods by B
   Joint Venture A/c ..... Dr
   To B
5. For the expenses incurred by A
   Joint Venture A/c ..... Dr
   To Cash A/c
6. For the expenses incurred by B
   Joint Veriture A/c ..... Dr
   To B
7. For sale of goods by A
   Cash A/c ..... Dr
   To Joint Venture A/c
8. For the unsold stock taken over by A
   Purchases A/c ..... Dr
   To Joint Venture A/c
9. For Commission due to A
   Joint Venture A/c ..... Dr.
   To Commission A/c
10. For the interest payable to B
    Joint Venture A/c ..... Dr
    To B
11. For the profit on joint venture
    Joint Venture A/c ..... Dr
    To P&L A/c(A's Share of profit)
    To B (B's share of profit)

Note: In case of loss, the above entry is reversed

12. For the final payment made to B
    B ..... Dr
    To Cash A/c

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3. When each co-venturer records transactions affecting joint venture.

Under this method, each co-venturer opens a Joint Venture Account and the personal accounts of other Co-venturers. The journal entries required to be passed under this method are explained with the help of example. Suppose A and B are trading separately and enter into a joint venture then the entries in their respective books will be as given on Page Nos. G-5 & G-6.

Memorandum joint venture method

This method is an alternative of the third method discussed above. Under this method profit or loss made on joint venture is ascertained by preparing Memorandum Joint Venture Account. This account does not form the part of double entry system as postings are not made from this account to other accounts. To enable the preparation of Memorandum Joint Venture Account, each party sends to the other party, a copy of the transactions affected by him. The expenses are shown on the debit side, income on the credit side and the profit or loss distributed amongst the Co-venturers.

Each Venturer opens one account in his book called "Joint venture with .....(name of the Co-venturer) Account. "This is not a nominal Account, but in the nature of personal account. Each party records only those transactions which are affected by it, no account is taken of transactions affected by the other party. If A and B have entered into joint venture, then the entries in the books of A will be as follows:

1. For goods supplied by A
   Joint Venture with B Account Dr.
   To Purchases A/c
2. For the amount spent by A towards Joint Venture
   Joint Venture with B A/c Dr.
   To Cash A/c
3. For bill drawn by A on B as advance
   Bills Receivable A/c Dr.
   To Joint Venture with B a/c
4. For charging the discount of the bill discounted by A
   Joint Venture with B A/c Dr.
   To Discount A/c

Contd. on Page No. G-9

	Transaction	Journal Entries in the books of A		Journal Entries in the books of B	
1.	For expenses incurred by A	Joint Venture A/c To Cash	Dr.	Joint Venture A/c To A A/c	Dr
2.	For expenses incurred by B	Joint Venture A/c To B A/c	Dr.	Joint Venture A/c To Cash	Dr.
3.	For the bill drawn by A on B as advance	Bills Receivable A/c To B A/c	Dr.	A's A/c To Bills Payable A/c	Dr.
4.	For getting the bills discounted	Bank A/c Discount A/c To Bills Receivable A/c	Dr. Dr.	No entry	
5.	For Charging the discount to Joint Venture A/c	Joint Venture A/c To Discount A/c	Dr.	Joint Venture A/c To A's A/c	Dr.
6.	When the income towards Joint Venture is received by A	Cash A/c To Joint Venture A/c	Dr.	A's A/c To Joint Venture A/c	Dr.
7.	When the Income towards Joint Venture is received by B	B's A/c To Joint Venture A/c	Dr.	Cash A/c To Joint Venture A/c	Dr.

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8.	For Commission receivable by B	Joint Venture A/c To B's A/c	Dr.	Joint Venture A/c To Commission A/c	Dr.
9.	For interest receivable by A	Joint Venture A/c To interest	Dr.	Joint Venture A/c To A's A/c	Dr.
10.	If unsold stock is taken over by B	B's Account To Joint Venture A/c	Dr.	Purchases A/c To Joint Venture A/c	Dr.
11.	For the transfer of Profit	Joint Venture A/c To P & L A/c (A's share) To B's A/c (B's share)	Dr.	Joint Venture A/c To P&L A/c (B's Share) To A's A/c (A's share)	Dr.
	In case of Loss, the above entries are reserved.				
12.	For the amount Paid by B in final settlement	Cash A/c To B's A/c	Dr.	A's A/c To Cash	Dr.

5.	For Sales made or amount received by A Cash Account To Joint Venture with B A/c	Dr.	
6.	For commission due to A Joint Venture with B A/c To Commission A/c	Dr.	
7.	For the share of profit of A Joint Venture with B A/c To Profit & Loss A/c	Dr.	

Similarly, B will also open an account in his books called "Joint venture with A account" and make entries for the transactions affected by him.

Illustration : when separate books are kept

A and B doing business separately as building contractors, undertake jointly to construct a building for a newly started joint stock company for a contract price of Rs. 10,00,000 payable as to Rs. 8,00,000 by instalments in cash and Rs. 2,00,000 in fully paid shares of the company. A bank account is opened in their joint names A paying in Rs. 3,00,000 and B Rs. 2,00,000 they are to share profit or loss in proportion of 3/5th and 2/5th respectively.

Their transactions were as follows:

Wages Rs. 4,00,000 Materials Rs. 5,00,000. Materials supplied by A Rs. 40,000 Architect's fees paid by B Rs. 20,000.

The contract was completed and the price duly received. The joint venture was closed by A taking up all the shares of the company at an agreed valuation of Rs. 1,75,000 and B taking the stock of materials at an agreed valuation of Rs. 40,000.

Show the necessary ledger accounts.

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Solution :

Joint Bank Account

Dr.		Rs		Cr.	Rs
?	To A	3,00,000	?	By Joint Venture A/c	
	" B	2,00,000		Wages 4,00,000	
	" Joint Venture	8,00,000		Materials 5,00,000	
	contract price		"	A final payment	9,00,000
			"	B " "	1,98,000
					2,02,000
		13,00,000			13,00,000

Joint Venture Account

Dr.		Rs		Cr.	Rs
?	To Joint Bank A/c		?	By Joint Bank	
	" Wages 4,00,000			Cash received	8,00,000
	" Materials 5,00,000	9,00,000	"	Share A/c	2,00,000
	" A–Materials	40,000	"	B - stock taken	40,000
	" B–Architect fees	20,000			
	" Shares - Loss	25,000			
	" Profit transferred to				
	A-3/5 33,000				
	B-2/5 22,000	55,000			
		10,40,000			10,40,000

A Account

Dr		Rs		Cr	Rs
?	To Shares A/c	1,75,000	?	By Joint Bank	3,00,000
	- taken over		"	Joint venture A/c-	
	" Joint Bank			materials taken	
	- final payment	1,98,000		over	40,000
			"	Joint venture A/c	
				-3/5 Profit	33,000
		3,73,000			3,73,000

B Account

Dr		Rs		Cr	Rs
?	To Joint Venture A/c		?	By Joint Bank	2,00,000
	material taken over	40,000	"	Joint Venture A/c	
	" Joint Bank A/c			Architeet's fees	20,000
	final payment	2,02,000		Joint venture A/c:	
				2/5th Profit	22,000
		2,42,000			2,42,000

Shares Account

Dr.		Rs		Cr	Rs
?	To Joint Venture	2,00,000	?	By A	1,75,000
			"	Joint venture A/c	
				Loss	25,000
		2,00,000			2,00,000

Illustration :

When separate books for the joint venture are not maintained

A and B were partners in a joint venture sharing profits and losses in the proportion of three-fifths and two-fifths respectively. A purchases and supplied goods of the value of Rs. 10,000 and incurs expenses amounting to Rs. 1,000. B Purchases and supplies goods of the value of Rs. 6,000 and his expenses amounted Rs. 800. B sells goods on behalf of the joint venture and realise Rs. 22,000. B is entitled to a commission of 5% on sales. B settles his account by bank draft.

Show the important ledger accounts in the books of both the parties. Also show how the transactions can be recorded alternatively (i.e. according to Memorandum Joint Venture Account method).

Solution:

(1) When each party records the transactions in its books.

In the books of A:

Jonit Venture Account

Dr.		Rs		Cr.	Rs
?	To Bank:		?	By B-Sales	22,000
	Purchases 10,000				
	Expenses 1,000	11,000			
	" B :				
	Purchases 6,000				
	Expenses 800	6,800			

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		Rs		Rs
"	B—Commission	1,100		
"	Profit transferred P & L A.c			
	3/5th 1,860			
	B - 2/5 1,240	3,100		
		22,000		22,000

Dr. **B. Account** Cr

		Rs		Rs
?	To Joint Venture A/c Sales	22,000	By Jont Venture A/c Purchases 6,000	
			Expenses 800	6,800
			" Joint Venture A/c — Commission	1,100
			" Joint Venture A/c 2/5th Profit	1,240
			" Bank	12,860
		22,000		22,000

In the books of B

Dr **Joint Venture A/c** Cr

		Rs			Rs
?	To " A		?	By Bank - Sales	22,000
	Purchases 10,000				
	Expenses 1,000	11,000			
"	Bank"				
	Purchases 6,000				
	Expenses 800	6,800			
"	Commission	1,100			
"	Profit transferred to				
	A - 3/5 1,860				
	P & L A/c - 2/5 1,240	3,100			
		22,000			22,000

A Account

Dr Cr

		Rs		Rs
?	To Bank	12,860	By Joint Venture A/c Purchases 10,000	
			Expenses 1,000	11,000
			" Joint Venture A/c 3/5 Profit	1,860
		12,860		12,860

II. Alternative Method

Mamorandum Joint Venture Account

Dr Cr

		Rs			Rs
?	To A		?	By B — Sales Proceeds	22,000
	Purchase 10,000				
	Expenses 1,000	11,000			
"	B				
	Purchases 6,000				
	Expenses 800	6,800			
"	B-Commission	1,100			
"	Profit —				
	A 3/5 1,860				
	B 2/5 1,240	3,100			
		22,000			22,000

In the books of A

Dr **Joint Venture with B Account** Cr

		Rs			Rs
?	To Bank		?	By Bank	12,860
	Purchases 10,000				
	Expenses 1,000	11,000			
"	P&L A/c				
	-3/5 share	1,860			
		12,860			12,860

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In the books of B
Joint Venture with A Account

Dr				Cr		
?	To Bank		Rs	?	By Bank	Rs 22,000
	Purchase	6,000				
	Expenses	800	6,800			
"	Commission		1,100			
"	Pro. & Loss A/c					
	2/5 share		1,240			
"	Bank		12,860			
			22,000			22,000

SHORT ANSWER QUESTIONS

1. X and Y have entered into a joint venture. X spent Rs. 5,000 on account of Joint venture. What Journal entries will be passed (i) when separate books are kept (ii) When records are maintained by X only (ii) when records are maintained by Y only.

2. Ram and Shyam entere into a joint venture and keep separate set of books. What entries are made in their books for (i) Joint bank account opened by Ram contributing Rs. 30,000 and Shyam contributing Rs. 20,000 (ii) Amount paid from joint bank account Rs. 15,000 (iii) Expenses paid by Ram Rs. 3,000 (iv) Commission due to Shyam Rs. 2,000

3. Avinash and Sudhir completed a joint venture earning a profit of Rs. 15,000. they shared profits and losses in the ratio of 3:2. What journal entries will be passed when (i) there is separate set of books (ii) records are kept by Avinash only (iii) records are kept by Sudhir only and (iv) there is a memorandum method of recording transactions.

(B.Com. Osm)

PROBLEMS

1. A and B enter into a joint venture to sell a consignment of timber sharing profits and losses equally. A provides timber from his stock at a mutually agreed value of Rs. 5,000. He pays expenses amounting to Rs. 250. B incurs further expenses on cartage, storage etc. amounting to Rs. 650 and receives cash for saes Rs.3,000. He also takes over goods of the value of Rs. 1,000 for his use in his own business. At the date of close A takes over the balance of stock in hand which is valued at Rs. 1,100. Prepare joint venture account and co-venturer's account in the book of A.

(B.A. Pass Delhi)

(Loss Rs. 800; amount paid by B. Rs. 3,750)

2. A and B enter into a joint venture, agreeing to share profits and losses in proportion of 4/5th and 1/5th respectively. A supplies goods to the value of Rs. 5,000 and incurs expenses amounting to Rs. 400. B Supplies goods to the value of Rs. 4,000 and his expenses amount to Rs. 300. B sells goods on behalf of the joint venture for Rs. 12,000 charging commission @ 5% of value realised. The amount due is settled by bank draft.

Show the necessary accounts in the books of both the parties

(B.Com. Nagarjuna)

(Profit Rs. 1700; amount remitted by B Rs. 6,760)

3. A and B enter into joint venture sharing profit 3/5 and 2/5. A is to purchase timber in Madhya Pradesh and forward it to B in Delhi. A Purchases timber worth Rs. 10,000 and pays Rs. 1,000 as expenses. B received the consignment and immediately accepted A's draft for Rs. 8,000. A got it discounted for Rs. 7,850. B sold the timber for Rs. 16,000. He had to spend Rs. 350 for fire insurance and Rs. 300 for rent. Under the agreement he is entitled to a commission of 5% on sales.

Gives journal entries and ledger accounts in the books of A and B.

(B.Com. Osm)

(Ans. Profit Rs. 3,400 : amount remitted by B Rs. 5,190)

4. On Ist October 2005 Hiren bought a parcel of precious stones for Rs. 85,000. He consigned it o Dhiren who agreed to share with him equally the profit and loss in the venture. Hiren paid Rs. 900 on account of carriage and insurance. He drew on Dhiren at 3 months for Rs. 40,000 on account, discounting the bill on 4th October 2005 for Rs 39,600. Discount is borne by the parties equally.

On receipt of the stones on 3rd October, Dhiren paid for insurance Rs. 300 and Rs. 800 for cutting and polishing. On 28th February 2006 Dhiren sold the stones for Rs. 1,05,000, his expenses being Rs. 900. On 31st March, he sent to Hiren an Account Sales along with a bank draft for the amount due to him.

Write up the Accounts as they would appear in the books of Hiren and Dhiren respectively.

(B.Com. Osm)

(Ans. Profit Rs. 16,700, amount remitted by Dhiren Rs. 54, 650)

5. Satyam and Shivam entered into a joint venture to purchase and sell timber. Profits and losses were to be shared equally. Satyam financed the venture and Sivam undertook the sales. Sivam is entitled to a commission of 5% on the sale proceeds.

Satyam purchased goods to the value of Rs. 60,000. He also paid towards freight Rs. 1,600 and advance Rs. 1,000 to Sivam to meet the expenses of Joint Venture. Sivam paid for carriage Rs. 200, Rent Rs. 400 and sundries Rs. 100. Sales made by Sivam amounted to Rs. 74,500.

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It was agreed that Satyam should receive Rs. 3,400 as interest on his investments. The remaining stock of unsold goods was taken over by Sivam at the agreed valuaton of Rs. 2,700.

Give journal entries and show Joint Venture Account in the books of Satyam.

(B.Com. Osm)

(Ans. Profit Rs. 7,775 Amount paid by Sivam Rs. 69,887.50)

6. A and B entered into a joint venture for a deal in second hand cars, it was agreed that A should buy cars, that B should attend to the reconditioning of them, that a commission of 5% shuould be allowed on sale made by each, and that profit should be divided equally. A purchased 7 cars for Rs. 18,500 and paid Rs. 210 for insurance and Rs. 130 for advertising. B contributed Rs. 8,000 for purchase money and paid for reparing batteries Rs. 180, for repairing tyres Rs. 330 and for other repairs Rs. 630 and charged Rs. 100 for garaging the cars. A sold 2 cars for Rs. 6,600 and B sold 4 cars for Rs. 13,360. A took over the remaining car at Rs. 2,500 and the venture was closed.

Show the ledger accounts of the venture in the books of each party.

(I.C.W.A. Inter)

(Ans. Profit Rs. 1,382, Final payment to A Rs. 2,761)

7. Kantilal and Mohanlal were partners in a joint venture sharing profits and losses in the ratio of 3:2

Kantilal purchased goods worth Rs. 30,000 and sent them to Mohanlal and spent Rs. 2,400 in the process. Mohanlal reported after sometime that he has sold goods for Rs. 32,000 and that remaining goods cannot be sold by him.

They decided to entrust the sale of these goods on cosignment basis to Shantilal who agreed to sell the goods on their behalf. He was to be paid all expenses and 5% commission on the sale.

After sometimes Shantilal sent an Account Sales, along with a cheque of Rs. 3,500 to Mohanlal, after deducting his expenses Rs. 350 and commission. The unsold goods were returned by him to Mohanlal.

Kantilal and Mohanlal decided to close the venture and Mohanlal took over the balance of goods at an agreed value of Rs. 2,000

Mohanlal sent a statement of account according to which he spent Rs. 1,450 on this venture. They also settled their account.

Your are required to prepare the relevent account of the joint venture in the books of Kantilal and Mohanlal disclosing the profit or loss made on the venture and the final settlement between them.

(C.A.I.I.B)

(Ans. Profit Rs. 3,650; Amount paid by Mohanlal Rs. 34, 590)

8. A and B enter into a joint - venture to ship goods abroad. A sends goods to the value of Rs. 1,000. pays freight Rs. 100 and sundry expenses Rs. 150. These transactions take place on Ist January 2006 B sends goods valued at Rs. 750 on February Ist and pays frieght and insurance Rs. 80 and sundry expenses Rs. 50. B advances to A on March 31st Rs. 450 on account of the venture. A received account sales and remittance of net proceeds for whole the goods amounting to Rs. 2,500 on Ist April. Final settlement between A and B is made on 30th April 2006 Show these transactions of the venture calculating interest at 5% p.a. in months.

(B.Com Osm)

(Ans. Profit Rs. 348. Amount paid to B Rs. 1,519)

9. Ram and Hanuman decided to take up a venture in Blankets. Ram was to purchase them. Ram was entitled to interest at 6% on money invested by him and Hanuman was to get a commission @3% on sales. Profits and losses to be shared equally. On Ist September 2006 Ram purchased 1000 blankets @Rs. 20 each. He spent Rs. 500 on packing. Hanuman spent Rs. 1,000 on freight. He sold:

200 blankets	On Ist October @ Rs. 30
500 blankets	On 31st October @ Rs. 35
200 blankets	On 15th November @Rs. 45

He remitted to Ram Rs. 5,000 on 1st October and Rs. 15,500 on 1st November.

He took the remaining blankets into his own stock at the agreed value of Rs. 2,500. On 30th November the accounts were settled.

Prepare the necessary ledger accounts in the books of Ram and Hanuman.

(B.Com. Sri Venkateshwara)

(Profit Rs. 12,217; Amount remitted by Hanuman Rs. 6,416.50)

10. Mahesh and Dinesh entered into a joint venture for the sale of cotton goods. Mahesh was to purchase cotton goods in Bombay and Dinesh was to sell it in Hyderabad. Each party was to receive 8% interest on investment and to pay similar interest on amount received on account of venture. Dinesh was to get 10% commission on sales and the profits and the losses were to be shared equally.

On 1st January 2006 Mahesh purchased cotton goods for Rs. 20,000 and forwarded it to Dinesh. Mahesh paid Rs. 2,000 towards freight and insurance. On the same date, Dinesh sent Rs. 10,000 to Mahesh as advance. 4/5th of the consignment was sold for Rs. 28,000 on Ist March 1980. The remaining goods were taken over by Dinesh at cost plus 10% on 31st March. On the same date Dinesh remitted the necessary amount to Mahesh. Prepare Joint Venture Account and Dinesh's account in the books of Mahesh.

(Ans. Profit Rs. 7,768, amount remitted Rs. 16,124)

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Hint : Interest due to Mahesh Rs. 240 (Interest on Rs. 22,000 for 3 months Rs. 440 less on Rs. 10,000 for 3 months Rs. 200). Interest due to Dinesh Rs. 32 (Interest on Rs. 10,000 for 3 months Rs. 200 less interest on Rs. 25,200 for one month Rs. 168). Value of the stock taken over by Dinesh Rs. 4,840; Commission due to Dinesh Rs. 2,800.

11. Lead and Follow agreed to enter into a joint venture for the purchase and sale of second hand motor cars and to share profits in the ratio of 3:2.

On Ist December 2005 Lead bought 8 cars for Rs. 73,600 and on December 5, he paid tax and insurance amounting to Rs. 2,560. On 31st December, he sold these cars for Rs. 99,200 of which he remitted Rs. 16,500 to Follow, paying the balance into his own bank account.

On December 20, 2005 Follow bought five cars for 62,000 and on December 25, he paid tax and insurance amounting to Rs. 2,600 and repairs amounting to Rs. 3,900. He sold three cars on January 2 2006 for Rs. 51,000 which he paid into his own bank account. It was agreed that Lead should take over the other cars at a valuation of Rs. 28,000 and the venture was closed on 10th January 2006

You are required to prepare (a) Memorandum Joint Venture Account, (b) the Account of the Joint Venture with Follow in the books of Lead.

(B.Com. Osm)

(Ans. Profit Rs. 33,540; Payment to follow Rs. 14,416)

12. Kalyan and Suman entered into a joint venture for the purpose of buying and selling second hand typewriters. Suman to make purchases and Kalyan to effect sales. The Profit and loss was to be shared equally by Kalyan and Suman. A sum of Rs. 15,000 was remitted by Kalyan to Suman towards the venture.

Suman purchased 20 old typewriters for Rs. 15,000 and paid Rs. 9,000 for their reconditioning and sent them to Kalyan. Further, Suman paid the following expenses. Commission Rs. 1,000; cartage Rs. 200; and other miscellaneous expenses Rs. 100.

Kalyan took delivery of the typewriters and paid Rs. 270 for octroi and Rs. 100 for cartage. He sold 12 typewriters at Rs. 2,200 each; 4 typewriters at Rs. 2,100each 3 typewriters at Rs. 2,000 each. He retained the remaining typewirter for his personal use at an agreed value of Rs. 1,500. His other expenses are insurance Rs. 250, Rent Rs. 400, brokerage Rs. 1,200 and miscellaneous expenses Rs. 200.

Each Party's ledger contains a record of his own transactions on joint account. Prepare statement showing the result of the venture and the account of the venture in the Kalyan's ledger as it will finally appear, assuming that the matter was finally settled between the parties.

(B.Com Sri Venkateswara)

(Profit Rs. 14,580, amount remitted by Kalyan Rs. 17,590)

13. A and B enter into a Joint Venture for guaranting the subscriptions at par of 10,00,000 shares of Re. 1/- each in Salem Lamps Ltd. They agree to share profits and losses equally. The terms with the company are that A and B have to pay all expenses upto allotment in consideration of the Salem Lamps Ltd. issuing to them 1,50,000 other shares of Re. 1/- each fully paid.

A introduced cash into business to meet the following expenses.

	Rs.
Rent	3,000
Solicitor's charges	5,000
B incurred the following expenses :	
Stamp charges and Registration Fees	3,000
Advertising charges	2,500
Printing charges of Memorandum of Association and Articles of Association etc.	3,500

The applications fell short of the 10,00,000 shares by 30,000 shares. A introduced further cash on joint account for these shares. The amount was utilised to subscribe to these shares and paid to the company. The guarantee having been fulfilled. Salem Lamps Ltd. handed over A and B 1,50,000 shares.

The partnership sold all the shares. A received the sale proceeds of 1,20,000 shares amounting to Rs. 1,10,000 and B of the remaining 60,000 shares amounting to Rs. 55,000.

Prepare a Joint venture account and the separate accounts of A and B showing the adjustment of final balance between them.

(B.Com Madras)

(Ans. Profit Rs. 1,18,000; Amount remitted by A Rs.13,000)

14. A and B enter into a joint venture as dealers in land with effect from Ist July 2006 On the same day A advanced Rs. 90,000 and a Plot of land, measuring 9,000 yards was purchased with this money. It was decided to sell the land in smaller plots and a plan was got prepared at the cost of Rs. 1,000 paid by B. In the said plan 1/3rd of total area of the land was left over for public roads and the remaining land was divided into 6 plots of equal size. On Ist October 2006 wo of the plots were sold at Rs. 30 per sq. yard the buyer deducting Rs. 1,000 per plot for stamp duty and registration expenses agreed to be borne by the sellers. The remaining plots were sold at ner price of Rs. 25 per sq. yard on Ist December 2006 The sale proceeds of all the plots were received by A. After charging interest at 6% p.a. on the investment to A (allowing for money received by him) and allowing 1% on the net sale proceeds of plots as commission to B, the net profit of the joint venture is to be shared in the proportions of 3/4 to A and 1/4 to B.

Draw up Memorandum joint venture account and personal accounts in

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the books of A and B showing the balance payable by one to the other.

Assume Joint Venture was completed on December Ist.

(B.Com Delhi)

(Ans. Profit Rs. 63,750; Amount paid by A Rs. 18,517.50)

15. A, B and C entered into a Joint Venture and agreed to divide the profits in the ratio of 6:3:1. They purchased by auction several new machines for Rs. 50,000. A contributing Rs. 30,000, B Rs. 20,000 and C Rs. 10,000 for carrying on the transactions relating to the venture. A joint Bank account was opened. The venturers sold all the machines for Rs. 1,25,000. A spent Rs. 2,450 and B and C spent Rs. 1,250 each in connection with the venture.

Show the joint venture account and other ledger accounts.

(B.Com Kakatiya)

(Ans. Profit Rs. 70,050; Final payment to A Rs. 74,480; B Rs. 42,265 and C Rs. 18,255)

16. A and B doing business separately as building contractors, undertake jointly to construct a building for a newly started joint stock company for a contract Price of Rs. 1,00,000 payable as to Rs. 80,000 by instalments in cash and Rs. 20,000 in fully paid shares of the company. A banking account is opened in their joint names. A paying in Rs. 25,000 and B Rs. 15,000. They are to share profits and losses in the proportions of 2/3 and 1/3 respectively. Their transactions were as follows :

	Rs.
Paid wages	30,000
Bought materials	70,000
Materials supplied by A	5,000
Materials supplied by B	4,000
Architect's Fees paid by A	2,000

The contract was completed and the Price (cash and shares) duly received. The joint venture was closed by A taking up all the shares of the company at an agreed valuation of Rs. 16,000 and B taking up the stock of materials at an agreed valuation of Rs. 3,000. Show the necessary ledger accounts.

(B.Com Osm.)

(Ans. Loss Rs. 12,000; Final payment to A Rs. 8,000 and to B Rs. 12,000)

17. Jolly and Happy undertake jointly to construct a building for Hyderabad Insurance Co. Ltd., for contract price of Rs. 9,00,000 payable as to Rs. 7,20,000 by instalments in cash and Rs. 1,80,000 in fully paid shares of the company. A Joint Bank Account is opened in their names, Jolly paying in Rs. 2,25,000 and Happy Rs. 1,35,000. They are to share Profit or Loss in the proportion of 2/3 and 1/3 respectively. Their transactions were as follows

	Rs.
Paid wages	2,70,000
Bought materials	6,30,000
Materials supplied by Jolly from his stock	45,000
Materials supplied by Happy from his stock	36,000
Architect's Fees paid by Jolly	18,000

The contract was completed and the Price duly received. The joint venture was closed by Jolly taking up all the shares of the company at an agreed valuation of Rs. 1,44,000 and Happy taking up the stock of materials at an agreed valuation of Rs. 27,000.

Prepare the Joint Venture Account and the accounts of Jolly and Happy, showing the final distribution of cash.

(B.Com Osm)

(Ans. Loss on Joint Venture Rs. 1,08,000; final payment to Jolly Rs. 72,000; Happy Rs. 1,08,000)

18. Varma and Manik, both building contractors, undertook a Joint Venture involving the construction of a school building. The Joint Bank Account was opened in which Varma deposited Rs. 50,000 and Manik deposited Rs. 25,000. The contract amount was Rs. 2,50,000.

The result of Joint Venture was to be shared as Varma 2/3 and Manik 1/3rd. The details of the transactions were as under.

1. Salaries Rs. 8,000.
2. Wages Paid Rs. 46,000.
3. Building materials purchased Rs. 1,10,000
4. Materials supplied by Varma Rs. 9,000
5. Materials supplied by Manik Rs. 8,000
6. Architect's fees Rs. 7,000
7. Cartage Rs. 12,000
8. Concrete Mixer plant purchased Rs. 25,000

The stock of material on completion of the contract valued at Rs. 11,000 was taken over by Varma. Concrete Mixer plant was sold out for Rs. 20,000 Mr. Varma was to be paid Rs. 12,000 per annum against establishment expenses, to be charged to the Joint Venture Account. The contrat lasted for 8 months.

Prepare Joint Venture Account, Joint Bank Account and accounts of Varma and Mani.

(C.A.I.I.B)

(Profit Rs. 48,000; Final payment to Varma Rs. 88,000 and Manik Rs. 49,000)

19. A & B enter into a joint venture to purchase & develop certain lands as industrial estate. For that purpose a joint Bank A/c was opened where

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in A deposited Rs. 60,000 and B deposited Rs. 40,000 A piece of land measuring 18,000 sq.yards was purchased at Rs. 3 per Sq. yard. The following expenses were paid from the joint Bank A/c.

	Rs.
Cost of earth filing to level land	14,000
Compensation paid to a hut-dwellers for vacating possession	5,000
Municipal Taxes	2,000
Cost of barbed wire fence	3,000
Architect's fees for plans	1,000
Stamp duty & Solicitor's fees	6,000
General expenses	2,000
Income from Sales of Timber	2,000

It was decided to sell and in smaller plots of 500 sq. yards each. One-sixth of the area was left over for public roads. 10 Plots were sold at Rs 12 per Sq. Yard through the broekrs, who were paid 2% brokerage on the sale Price of land. A retained one plot of land for his personal use at an agreed Price of Rs. 5,000. The remaining plots were sold at a consolidated price of Rs. 76,200 directly. A & B shared profits or losses of the joint venture in the proportion of the amounts invested by them. All transactions have been effected through the bank. Prepare joint venture a/c. joint bank a/c & accounts of A and B assuming that all accounts are settled.

(B.Com. Madras)

(Profit Rs. 55,000, final Payment to A Rs. 88,000 and B Rs. 62,000)

20. A, B and C enter into Joint Venture to divide profits equally. They bought goods from D for Rs. 1,25,000 and from A for Rs. 25,000. A contributed Rs. 30,000, B Rs. 40,000 and C Rs, 90,000 which were banked in a joint account. They settle their account with D by cheque and paid for carriage and other expenses for Rs. 7,500. They sold goods for cash Rs. 65,000 and to E on credit for Rs. 1,40,000 who accepted a draft for the amount. The acceptance was cashed and realised Rs. 1,37,000. A was allowed 5% commission on sales for effecting the transactions.

Pass journal entries and open accounts assuming that the final settlement between parties was made by the cheques.

(C.A.I.I.B.)

(Ans. Profit Rs. 34,250; final payment to A Rs. 76,667, B Rs. 51,417 and C Rs. 1,01,416)

❄

CHAPTER -8

Depreciation

Definition: Depreciation means fall in the value of an asset. According to Pickles "depreciation may be defined as the permanent and continuous diminution in the quality, quantity or value of an asset". Carter defined depreciation as "gradual and permanent decrease in the value of an asset from any cause". According to American Institute of Certified Public Accountants (AICPA) "Depreciation Accounting is a system of Accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage value (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation. Depreciation for the year is portion of the total charge under such a system that is allocated to the year".

Characteristics of Depreciation

1. Depreciation is a gradual, permanent and continuous decrease in the utility value of a fixed asset.
2. Depreciation is a process of allocation of the cost to the period of its life and not a valuation of fixed assets.
3. Depreciation is not a substitute for repairs but it is provided for in addition to the repairs and maintenance.
4. Depreciation arises due to use of assets in productive activities.
5. Depreciation is based on cost of the asset and not on the market value of the fixed assets.
6. Depreciation is charged is respect of fixed assets.
7. Depreciation is a charge against profit.
8. Total depreciation of an asset cannot exceed its depreciable value (cost less scrap value).

Distinction between depreciation, depletion, obsolescence, amortisation and fluctuation:

According to ICAI is a wider term and includes depletion and amortisation. **Depletion** refers to fall in value of tangible wasting assets like coal mines, timber reserves, oil reserves. **Amortisation** refers to fall in the value of intangible assets like goodwill, patents, copyrights, trademarks etc.

Obsolescence Occurs when an asset becomes out of date or it goes out of use

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or improved technology or invention. Due to technological change, the use of an asset may not remain commercially viable. In this case, decline in the value of asset is not due to physical deterioration but due to new invention or improved technology.

Reasons for charging depreciation or objects of charging depreciation:

1. **To allocate depreciable cost:** The amount invested on fixed asset used in business is a cost to be recovered from the business over the useful life of the asset. Depreciation means the cost of the fixed asset used up in the period. This must be treated as cost or expense of the business and debited to Profit & Loss Account.
2. **To ascertain true and fair Profit or Loss:** Depreciation of fixed assets used in a business is a business expense like other business expenses such as salaries, rent etc. As other business expenses are charged to Profit & Loss Account, depreciation on fixed asset should be charged to Profit and Loss Account. If it is not charged to P & L A/c, the P & L A/c will not show true Profit or Loss of the business.
3) **To show correct financial position:** If depreciation is not charged on fixed assets, the values of fixed assets will be over-stated and the balance sheet will not reflect the true financial condition.
4) **To Provide funds for replacement:** Depreciation is non-cash expense. The amount debited in Profit and Loss Account is retained in business. No payment is made like other expenses. This will accumulate year after year. At the time of replacement, funds will be available. Funds generated by sale of goods are retained in the business by charging depreciation.
5) **To compute tax liability:** Depreciation is a chargeable expense from income-tax point of view. By calculating depreciation as per tax laws and charging it to Profit & Loss Account, will result in less tax liability.

Causes of depreciation

1) Wear and tear due to constant use.
2) Efflux of time. Some assets have a fixed period of legal life such as lease, patent rights etc. On the expiry of the life the assets will cease to exist.
3) Obsolescence. An old machinery, though in good condition may become obsolete due to introduction of a new machinery which produces more than the old machinery.
4) Exhaustion.

Basic factors or basis of providing depreciation:

1) The original cost of the asset.
2) The estimated working life of the asset.
3) The estimated residual or scrap value of the asset at the end of its estimated life.

Methods of providing depreciation

There are different methods of providing depreciation. The main methods are discussed below.

1. Fixed Instalment Method

It is also called as Fixed Percentage on Original Cost or Equal Instalments Method or Straight Line Method. Under this method a fixed percentage on original cost of the asset is written off eyery so as to reduce the asset account to nil or its scrap value at the end of the estimated life of the asset. It is calculated as:

$$\frac{\text{Cost- Estimated Scrap Value}}{\text{Estimated life of the asset}}$$

It may also be expressed as a fixed percentage of the original cost. While calculating depreciation for a particular year the period for which the asset is used in the year concerned should also be taken into account.

Suppose an asset is purchased for Rs. 1,10,000, it has an estimated life of 10 years and its estimated scrap value after 10 years is Rs. 10,000. then annual depreciation will be:

$$\frac{1,10,000 - 10,000}{10} = \text{Rs. } 10,000$$

If in the first year, the asset is used for six months, then depreciation charge at the end of first year will be Rs. 5,000.

Advantages.

1) It is simple to calculate and easy to understand.
2) Under this method, the asset can be written down to zero, i.e. asset can be completely written off over the period of its useful life.

Disadvantages.

1) The burden of Profit and Loss Account in respect of depreciation and repairs on an asset is not uniform from year to year. This is because, though the amount of depreciation will be constant year after year, the amount of repairs will go on increasing as the asset becomes older.
2) If an additional asset is acquired, the amount to be charged as depreciation has to be recalculated.
3) It ignores the interest on the money invested on the purchase of the asset.
4) It does not provide for replacement of the asset at the end of useful life.
5) It is based on wrong assumption that the asset will have same utility in different accounting years. Efficiency and usefulness of an asset reduces with passage of time.

Suitability

1) Where the life time and scrap value of the asset can be estimated accurately.

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2) Where the repairs and renewals are more or less uniform or comparatively small.

This method is suitable in case of assets like patents, short lease and Furniture. This method is not suitable in case of Plant and Machinery.

2. Diminishing Balance Method

This is also called as 'Written Down Value Method' or 'Reducing Instalment Method'. Under this method depreciation is charged at a fixed rate of the reducing balance of the asset every year. For example, if the cost of an asset is Rs. 1,00,000 and if the rate of depreciation is 10% per annum. then in the first year the depreciation will be 10% on Rs. 1,00,000 i.e. Rs. 10,000; in the second year 10% on Rs. 90,000 (Rs. 1,00,000-Rs. 10,000) i.e. Rs. 9,000 and in the third year 10% on Rs. 81,000 (Rs. 90,000 - Rs.9,000) i.e. Rs. 8,100. Though the percentage at which depreciation is charged remains fixed, the amount of depreciation goes on decreasing year after year.

Formula for calculating the rate of depreciation is as follows:

Rate of Depreciation=

$$1-n\sqrt{\frac{\text{Residual Value}}{\text{Cost of Assets}}} \times 100$$

When n= number of years of asset's life.

Advantages

1. The total burden on the Profit and Loss account in respect of depreciation and repairs of an asset is more or less uniform every year. In the earlier years, the amount of depreciation will be more and the amount of repairs will be less, but in the later years the amount of depreciation will be less and the amount of repairs will be more.
2. There is no need of fresh calculations in case there is an addition to the asset unless such addition is made in the middle of the year.

Disadvantages

1. This method cannot bring down the book value of the asset to zero, i.e. asset cannot be completely written off.
2. It ignores interest on the money invested on the asset.
3. It lacks simplicity, it is not easy to calculate the percentage of depreciation to be applied every year.

Suitability

This method can be applied to Plant and Machinery where repairs are heavy.

Accounting Treatment:

1. When the asset is purchased:

Asset A/c ..... Dr.
To Bank

2. Installation charges, reconditioning or overhauling expenses incurred on second hand machine should also be charged to the asset account. The entry is:

Asset A/c ..... Dr.
To Bank A/c

3. For providing depreciation at the end of the year.

Depreciation Account ..... Dr.
To Asset Account

Note: If the asset is sold, depreciation should be calculated upto the date of sale of the asset.

4. For transfer of depreciation to Profit and Loss Account

Profit and Loss Account ..... Dr.
To Depreciation Account

5. For the amount realised on the sale of asset

Bank Account ..... Dr.
To Asset Account

6. For the loss on sale of Asset.

Profit and Loss Account ..... Dr.
To Asset Account

Notes: 1. The above entry will be reversed in case of profit.

2. Loss or Profit on sale of asset is to be ascertained by finding the difference between the book value of the asset on the date of sale and the amount realised from, the sale of asset.

Illustration 1.

A Company purchased a second-hand machinery on 1st January 1990 for Rs. 34,000 and immediately spent for its repairs and erections Rs. 6,000. On 1st October 1990, it purchased another machine for Rs. 20,000 and on 1st April 1991 it sold off the first machine (purchased on 1st January 1990) for Rs. 32,000. On the same date it purchased a new machine for Rs. 50,000. On 1st July 1992 it bought a new machine for Rs. 40,000. On the same date it sold the second machine purchased on 1st October 1990 for Rs. 17,500. Depreciation was charged at 10% on the original cost and accounts were closed on 31st December every year.

Prepare Machinery Account from 1990 to 1992

Solution:

Dr. **Machinery Account** **Cr.**

		Rs.			Rs.
1990			1990		
Jan.1	To Bank		Dec.31	By Depreciation A/c	
	(cost of			on 40,000 for	

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		Machine)	34,000			oneyear 4,000 on 20,000 for 3 months 500	4,500
	"	Bank (Repairs and erection)	6,000	"	"	Balance c/d	55,500
Oct1	"	Bank (Cost of Second machine)	20,000				
			60,000				60,000
1991				1991			
Jan.1	To	Balance b/d	55,000	Apl.1	By	Bank (Sale proceeds of first machine)	32,000
Apr.1	To	Bank (cost of third machine)	50,000	"	"	Depreciation A/c (on 40,000 for 3 months)	1,000
				"	"	Profit & Loss A/c (Loss on Sale of machine)	3,000
				Dec.31	By	Depreciation on 20,000 for one year 2,000 on 50,000 for 9 months 3,750	5,750
				Dec.31	"	Balance c/d	63,750
			1,05,500				1,05,500
1992				1992			
Jan.1	To	Balance b/d	63,750	July1	By	Bank (sale of second machine)	17,500
July1	"	Bank (cost of fourth machine)	20,000	"	"	Depreciation (on 20,000 for 6 months)	1,000
	"	Profit & Loss A/c (Profition sale of second machine)	1,000	Dec.31	"	Depreciation on 50,000 for one year 5,000 on 20,000 for 6 months 1,000	6,000
					"	Balance c/d	60,250
			84,750				84,750

1993 Jan	To	Balance b/d	60,250

Working Notes:

1. Loss on Sale of machinery in 1991

		Rs.
Cost of machine		40,000
Less depreciation charged:		
1990	4,000	
1991	1,000	5,000
Book Value on the date of sale		35,000
Less sale proceeds		32,000
Loss on sale of machine		3,000

2. Profit on sale of machinery in 1992

		Rs.
Cost of the machine		20,000
Less Depreciation charged:		
1990	500	
1991	2,000	
1992	1,000	3,500
Book Value on the date of sale =		16,500
Sale Proceeds		17,500
Less Book Value		16,500
Profit on Sale		1,000

Accounting treatment when Provision for Depreciation Account is maintained

Under this method a separate account called 'Provision for Depreciation' is maintained. The entry for providing depreciation will be:

Depreciation A/c Dr.
To Provision for Depreciation A/c

Under this method, asset account appears at the original cost of the asset and depreciation written off every year is accumulated in a separate account called 'Provision for Depreciation A/c'. In Balance Sheet the asset account will appear at original cost less Provision for Depreciation (accumulated depreciation) on the assets side. Alternatively, Asset Account could be shown at original cost on the assets side and provision for Depreciation Account on the liabilities side. If the asset is sold, the credit balance in the Provision for Depreciation Account will be transferred to the credit side of Asset Account and then Profit or Loss on the sale of asset will be ascertained.

Change in method of Depreciation

A firm may change the method of charging the depreciation from Straight Line Method to Diminishing Balance Method or Vice-Versa. In such a case, the change may be made with immediate effect or with retrospective effect. If the

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Change of method is to be implemented with immediate effect, the treatment is very simple. As on the date of change, the written down value of the asset and the remaining life of the asset is ascertained and the depreciation is charged according to new method of depreciation. No adjustment is made in respect of depreciation charged upto the date of change.

If the method of depreciation is to be changed with retrospective effect then the following procedure is to be adopted.

1. Calculate total depreciation from the date of retrospective effect to the date of change according to new method.
2. Calculate the total depreciation according to the old method.
3. Find the difference between the two, and if the depreciation according to new method is greater than that of old method, then adjust the same by passing the following entry.

Profit & Loss Adjustment A/c Dr
To Asset

Note: If the total deprecition according to new method is less than that of old method, the above entry should be reversed.

Illustration 2

Good Luck Ltd purchased on 1st January 1997, certain machinery for Rs. 1,94,000 and spent Rs. 6,000 on its erection. On 1st July 1997 additional machinery costing Rs, 1,00,000 was purchased. On 1st July 1999 the machinery purchased on 1st January 1997 has been auctioned for Rs. 1,00,000 and on the same date, new machinery was purchased at a cost of Rs. 1,50,000. Depreciation was provided annually on 31st December at the rate of 10% P.A on the original cost. No depreciation need be charged during the year of sale of machinery for that part of the year when the machine was used. In 2001, however, the company has changed the method of depreciation to written down value method at the rate of 15% from the straight line method. Show the Machinery Account for the five year period from 1997 to 2001.

(B.Com. Osmania)

Solution:

Dr. Machinery Account Cr.

Date	Particulars	Amount Rs.	Date	Particulrs	Amount Rs.
1997			1997		
Jan.1	To Bank (Purchase of machine)	1,94,000	Dec. 31	By Depreciation B/c (20,000+5,000)	25,000
"	" Bank (erection Charges	6,000			
July 1	" Bank (Second machine)	1,00,000	"	" Balance c/d	2,75,000
		3,00,000			3,00,000
1998 Jan1	To Balnce b/d	2,75,000	1998 Dec 31	By Depreciation A/c (20,000+10,000)	30,000
			"	Balnce c/d	2,45,000
		2,75,000			2,75,000
1999 Jan.1	To Balance b/d	2,45,000	1999 July1	By Bank-sale of first machine	1,00,000
July1	" Bank-IIIrd machine	1,50,000	"	Profit & Loss A/c Loss on sale of machine	60,000
			Dec 31	" Depreciation A/c (10,000+7,500)	17,500
			"	Balance c/d	2,17,500
		3,95,000			3,95,000
2000 Jan.1	To Balnce b/d	2,17,000	2000 Dec31	By Depreciation A/c (10,000+15,000)	25,000
			"	" Balance c/d	1,92,500
		2,17,000			2,17,000
2001 Jan.1	To Balance b/d	1,92,500	2001 Dec 31	By Depreciation A/c (15% on 1,92,500)	28,875
			"	" Balance c/d	1,63,625
		1,92,500			1,92,500
2002 Jan.1	To Balance b/d	1,63,625			

3. Annuity Method

This method is based on the principle that when an asset is used in a business, the total loss of the busines during the life of the asset is not only the original cost of the asset, but also the interest on the amount invested in acquiring the asset. Therefore, under this method, not only the original cost of the asset, but also the interest on the money invested in the asset is written off as depreciation over the life time of the asset.

In this method, definition of cost (or depreciable amount) is changed. The depreciable amount is original cost (plus installation charges, if any) plus loss on interest on the unexpired balance of the asset every year. The total depreciation charged to profit and loss account is more than cost of the asset.

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Every year Asset Account is debited and interest Account credited at a fixed rate on the opening balance of the asset. The Interest credited will not be constant or fixed every year. Depreciation is charged on the asset every year by debiting depreciation account and crediting asset account. The amount of depreciation to be charged every year will be fixed or constant. It is to be ascertained on the basis of annuity Table. The amount of depreciation depends upon the rate of interest and the period over which asset is to be written off. The amount of depreciation is so adjusted that at the end of the working life of the asset its book value is reduced to zero or its scrap value, if any.

Advantage

1. It takes into account loss of interest on amount invested in purchase of an asset.

Disadvantages

1. This method is not simple. Fresh calculations have to be made when in course of an accounting period, new asset is acquired.
2. The interest taken under this method, is 'notional' i.e. not actually received. It amounts to taking credit for an income which is non-existent'.
3. It does not ensure liquid funds at the time of replacement of asset.

This method is suitable for those assets which need large amount of capital investment like long leases.

The Accounting Treatment is as follows.

1. Asset a/c Dr. (with the amount of interest)
   To Interest A/c
2. Depreciation A/c Dr. (with the annual depreciation)
   To Asset.

Illustration 3

A lease is purchased on 1-1-1995 for a period of 5 years for a period of 5 years for Rs. 40,000. It is proposed to depreciate the lease by the Annuity Method charging 5% interest. As per Annuity tables 0.230975 is to be written off every year to write off one rupee in five years at 5% interest. Prepare Lease Account for five years. **(B.Com. Nagarujuna)**

Solution :

Dr. **Lease Account** **Cr.**

Date	Particulars	Amount Rs.	Date 1995	Prticulars	Amount Rs.
Jan.1	To Bank	40,000.00	Dec.31	By Depreciation	9239.00
Dec31	" Interest	2,000.00	"	" Balance c/d	32,761.00
		42,000.00			42,000.00

			1996				
1996 Jan.1	To	Balance b/d	32,761.00	Dec.31	By	Depreciation	9,239.00
Dec31	"	Interest	1,638.05	"	"	Balance c/d	25,160.05
			34,399.05				34,399.05
			1997				
1997 Jan.1	To	Balance b/d	25,160.05	Dec.31	By	Depreciation	9,239.00
Dec31	"	Interest	1,258.00	"	"	Balance c/d	17,179.05
			26,418.05				26,418.05
			1998				
1998 Jan.1	To	Balance b/d	17,179.05	Dec.31	By	Depreciation	9,239.00
Dec31	"	Interest	858.95	"	"	Balance c/d	8,799.00
			18,038.00				18,038.00
			1999				
1999 Jan.1	To	Balance b/d	8,799.00	Dec.31	By	Depreciation	9,239.00
Dec31	"	Interest	440.00				
			9,239.00				9,239.00

4. Depreciation fund Method or Sinking Fund Method

Under this method not only depreciation is charged on the asset, but provision is also made for the purchase of a new asset at the end of the life of the old asset. The amount written off as 'Depreciation' every year is kept aside and invested in easily realisable securities. The interest received on the securities is also invested. Thus the securites accumulate at compound interest. At the end of the life of the old asset the securities are sold and a new asset is purchased with the sale proceeds. The amount of depreciation to be provided every year is constant or fixed. It is to be ascertained with reference to sinking fund tables.

The asset is shown in the Balance Sheet, every year, at its original value. Sinking Fund is shown on the liabilities side and Sinking Fund Investments is shown on the Assets side of the Balance Sheet.

Advantage

The main advantage of this method is that it not only provides depreciation, but also makes provision for the replacement of the old asset by a new one

Disadvantages

1. The mthod is quite cumbursome to operate and involves many calculations.
2. The method will not work if the expeciation about the life of the asset do not come true. It will be very difficult to adopt this method if there are frequent additions, extensions and replacement of the assets.
3. Uner this system, the burden on the Profit & Loss Account in respect of depreciation and repairs is not uniform year after year. Though the amount of depreciation debited to Profit & Loss Account every year is constant the amount of repairs debited to Profit & Loss Account goes on increasing as the asset becomes older.

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Comparison of Sinking Fund Method and Anninty Method

Similarities:

1. Under both methods the Asset Account shows nil balance after the expery of expected life of the asset.
2. The amount of depreciation provided every year is fixed.

Difference

1. Under Sinking Fund actual interest realised is taken into consideration, whereas under Annuity Method only 'Notional Interest' is considered.
2. Under Sinking Fund method depreciation charged is invested in outside securities, whereas under Annuity method, depreciation charged is not invested outside securities.
3. Depreciation Fund method provides liquid resources for replacement of the existing asset whereas Annuity Method does not provide liquid resources for replacement of the existing asset.
4. Under Depreciation fund the interest keeps on increasing every year as it is calculated on the cumulative balance of investments every year. But under Annuity Method interest keeps on decreasing every year as it is calculated on the unexpired balance of the asset every year.
5. Under Depreciation Fund methods total depreciation is less than the depreciable cost of the asset. Under annuity method total depreciation is more than the depreciable cost of the asset.
6. Under Depreciation Fund amount to be depreciated is calculated with the help of Sinking Fund tables whereas under Annuity Method depreciation is calculated with the help of Annuity Tables.
7. Under Depreciation fund Method Asset account appears at its original cost as depreciation is credited to Depreciation Fund Account. Under Annuity Method depreciation is charged to Asset Account hence the asset account will be decreasing every year.

Accounting Treatment

First Year (at the end):

1. For Providing annual depreciation.

Depreciation Account	Dr.	
To Depreciation Fund Account		

2. For investing the amount of depreciation

Depreciation Fund Investment Account	Dr.	
To Bank		

Note: Depreciation Account will be transferred to Profit and Loss Account. Depreciation Fund Account will appear on the Liabilities side and Depreciation Fund Investment Account on the Assets side of the Balance Sheet. The asset account will appear in the balance sheet at the original cost.

Subsequent Years:

For interest received and credited to Depreciation Fund

Bank Account		
To Depreciation Fund Account	Dr.	

Note: Every year interest should be calculated on the opening balance of Depreciation Fund Investment Account.

2. For annual instalment of depreciation

Depreciation Account	Dr.	
To Depreciation Fund Account.		

3. For the amount of depreciation and interest earned invested in securities

Depreciation Fund Investment Account	Dr.	
To Bank A/c		

Last Year:

1. For interest received on investments

Bank A/c	Dr.	
To Depreciation Fund Account		

2. For annual instalment of depreciation

Depreciation Account	Dr.	
To Depreciation Fund Account		

3. For sale of investments

Bank A/c	Dr.	
To Depreciation Fund Investments Account		

4. For Profit on sale of investment

Depreciation Fund Investment Account	Dr.	
To Depreciation Fund Account		

Note: In case of loss, the above entry is reversed.

5. For transfer of the asset

Depreciation Fund Account	Dr.	
To Asset Account		

6. For transfer of credit balance in the Fund Account

Depreciation Fund Account	Dr.	
To Profit and Loss Account		

Note: In case of debit balance, the above entry is reversed.

7. For purchase of new asset

Asset Account	Dr.	
To Bank		

5. **Insurance Policy Method:** This method is similar to the Depreciation Fund method, the difference being that instead of purchasing investments an insur-

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ance policy is taken which will fetch at the end of the fixed period the required amount. Premiums have to be paid at the beginning of the year. No entry is made for interest, as interest will not be received from insurance company.

6. Sum of the Digits Method: Under this method depreciation is written off each year by the formula.

$$\text{Depreciation} = \frac{\text{Remaining life of the asset (including current year)}}{\text{Sum of Digit of the life of the asset in years.}} \times \text{Cost of the Asset}$$

7. Revaluation Method: Under this method the assets are revalued at the end of the accounting year and the difference between the closing and opening value is treated as depreciation. This method is used in case of bottles, corks, loose tools, live stock etc.

8. Depletion Method: This method is used in case of mines, quarries etc. The rate of depreciation is calculated by dividing the cost of the mine by the total quantity of the minerals expected to be available.

9. Machine Hour Rate Method: Under this method the life of the machine is fixed in terms of hours. Hourly rate of depreciation is worked out by dividing the cost of the machine by the total number of hours for which the machine is expected to be used. Depreciation to be written off in a year is ascertained by multiplying the hourly rate of depreciation by the number of hours the machine actually runs in the year.

Difference between a sinking fund to replace an asset and sinking fund to repay a liability

Sinking Funds are created to have ready money after a particular period either for replacement of an asset or for the repayment of a liability. The main purpose of creating a Sinking Fund is to have a certain sum of money accumulated for a future date. An amount equal to reserve created as Sinking Fund is invested outside the business in government or other securities. The interest received and the annual amount set aside is invested every year so as to provide the required amount for repayment of liability or replacement of an asset after a specified period of time. As stated above, sinking fund maybe for redemption of liability or replacement of an asset. The following are the main of differences between the two types of sinking funds.

1. In case of sinking fund to replace an asset the annual instalment is depreciation and is a charge against Profits, so it is debited to Profit & Loss account whereas in case of sinking fund to repay a liability it is an appropriation of Profits, so it is debited to Profit & Loss Appropriation account.

2. In case of sinking fund for replacement of an asset, at the end of the useful life of the asset, all investments are sold and the proceeds are utilised for purchasing new asset. The profit or loss on the sale of investments is transferred to sinking fund and fund is utilised for usiting off old asset account. But in case of sinking fund for repayment of liability the balance in the account is transferred to general Reserve.

3. Sinking fund for replacement of asset does not enhance the capital of the business, but in the other case it increases the capital of the business after the repayment of liability.

Illustration 2: On 1st January 2000 a Lease was purchased for Rs. 40,000. It is to be replaced at the end of 4 years. It is expected that investments will yield a net interest of 4% p.a. A Depreciation Fund is established to collect the necessary amount. Sinking Fund tables show that to get Re. 1 at the end of 4 years @ 4% p.a. an annual investment of Re. 0.235490 is necessary. investments are made to the nearest rupee.

On 31 December 2003 the firm has a balance of Rs. 20,000 (after receiving the interest on investments). The Depreciation Fund Investments realised Rs. 29,500. The new lease cost Rs. 45,000.

Show the necessary Ledger Accounts.

Depreciation Fund A/c

Dr.			Rs.				Cr. Rs.
2000 Dec.31	To	Bal.c/d	9,419.60	2000 Dec.31	By	Dep.A/c	9,419.60
2001 Dec.31	"	Bal.c/d	19,216.00	2001 Jan.1	"	Balance b/d	9,419.60
					"	Interest on Dep. Fund Inv. A/c	376.80
					"	Depr. A/c	9,419.60
			19,216.00				19,216.00
2002 Dec.31	To	Bal.c/d	29,404.24	2002 Jan.1	By	Bal.b/d	19,216.00
				Dec.31	"	Int.on Depr. Fund Invest. A/c	768.64
					"	Depr. A/c	9,419.60
			29,404.24				29,404.24

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2003 Dec.31	To LeaseA/c-Tranisfer	40,000.00	2003 Jan. 1	By Bal. b/d		29,404.24
"	Profit & Loss A/c-balance transferred	96.00	Dec.31	" Int.on Depr. Fund Invest. A/c.		1,176.16
				" Depr.A/c		9,419.60
				" Depr.Fund Invest A/c Profit		96.00
		40,096.00				40,096.00

Dr. Depreciation Fund Investment A/c Cr.

		Rs.			Rs.
2000 Dec.31	To Bank	9,420	2000 Dec.31	By Balance c/d	9,420
2001 Jan. 1	To Balance b/d	9,420	2001 Dec.31	By Balance c/d	19,216
Dec.31 "	Bank	9,796			
		19,216			19,216
2002 Jan. 1	To Balance b/d	19,216	2002 Dec.31	ByBalance c/d	29,404
Dec.31 "	Bank	10,188			
		29,404			29,404
2003 Jan. 1	To Balance b/d	29,404	2003 Dec.31	By Bank-Sale Proceeds	29,500
Dec.31 "	Depreciation Fund A/c-Profit Transferred	96			
		29,500			29,500

Dr. Depreciation Account Cr.

		Rs. Ps.			Rs. Ps.
2000 Dec.31	To Depreciation Fund A/c	9,419.60	2000 Dec.31	By Profit & Loss A/c	9,419.60
2001 Dec.31	To Depreciation Fund A/c	9,419.60	2001 Dec.31	By Profit & Loss A/c	9,419.60

2002 Dec.31	To Depreciation Fund A/c	9,149.60	2002 Dec.31	By Profit & Loss A/c	9,419.60
2003 Dec.31	To Depreciation Fund A/c	9,149.60	2003 Dec.31	By Profit & Loss A/c	9,419.60

Dr. Lease Account Cr.

		Rs.			Rs.
2000 Jan.1	To Bank	40,000	2000 Dec.31	By Balance c/d	40,000
2001 Jan.1	To Balance b/d	40,000	2002 Dec.31	By Balance c/d	40,000
2002 Jan.1	To Balance b/d	40,000	2002 Jan.1	By Balance c/d	40,000
2003 Jan.1	To Balance b/d	40,000	2003 Dec.31	By Depreciation Fund A/c Transfer	40,000

Dr. Lease (New) Account Cr.

2003 Dec.31	To Bank	45,000

Dr. Bank Account Cr.

		Rs.			Rs.
2003 Dec.31	To Balance b/d	20,000	2003 Dec.31	By Lease (New Account)	45,000
"	Depreciation Fund Investment A/c	29,500		Balance c/d	4,500
		49,500			49,500
1984	To Balance b/d	4,500			

Note:

The annual amount to be transferred to Depreciation Fund is 0.235490 x 40,000 = Rs. 9,419.60

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Choice of suitable method of depreciation: After discussing the above methods of providing depreciation, it is not possible to say that a particular method is best and should be applied by every concern. Each method has its own merits and demerits. Suitability of every method is relative and depends upon Various factors. The most important factors are the type of asset and the purpose of depreciation.

Straight line method is suitable for buildings and Lease etc. Reducing Instalment method can be applied for machinery, plant and equipment etc. depletion Method is appropriate for wasting assets like mines, quarries and oil wells. For assets like loose tools, patents, lorries etc. Revaluation Method is followed. If Depreciation fund Method or Insurance Policy method is followed, funds will be available for purchase of new asset, but amount has to be invested outside business which may create working capital problem.

Provisions and Reserves

Provisions: In every business, there may be some contingencies which are likely to arise, but the amount of which is not known. To meet such contingencies, Provisions are made. According to Companies Act, 1956 the term "Provision" shall mean (i) any amount written off or retained by way of providing for depreciation, renewals or diminution in the value of the assets or (ii) retained by way of providing for known liability of which amount cannot be determined with substantial accuracy. In simple words provision is a charge against Profit and is created to meet a known loss or expected contingency or outstanding liability the amount of which cannot be determined accurately. The basic features of a "Provision" are

1. Provision is created to provide for expected decrease in assets or increase in liabilities in future on account of transactions of the current year. Example Provision for doubtful debts, provision for taxation etc.
2. It is a charge against profit. 'Provision is charge against revenue and other incomes of current year. It ensures proper matching of revenue and expenses. Surplus left after taking into account provisions made is called net profit or 'divisible Profit'.
3. Creation of Provisions serves the purpose of (i) ascertainment of true profit or loss and (ii) depiction of true and fair view of the financial position of the business concern.
4. When provision is created actual expense or loss is charged to provision account and not to Profit & Loss account. For example actual bad debts

are transferred to provision for Doubtful Debts Account and not to Profit & Loss Account.

Reserves:

A 'Reserve' refers to retention of Profit which is not in the form of provision. In other words retention of Profit which is not by way of providing depreciation or diminution in the value of assets or increase in any known liability. The amount of which cannot be determined with substantial accuracy is called a 'Reserve'. In other words 'Reserve' is an amount set aside out of Profits to provide additional working capital or to strengthen liquid resources, or that they may be available for any unknown countingency or to equalise dividends. It is an appropriation of Profit. This may be considered as 'undisturbed profit' and can be created only when there is a Profit. Reserve can be for either general or specific purpose. When the purpose is not specified it is called 'General Reserve'. It is also called 'Free Reserve' because the management is free to utilise it for any purpose. If the profit is appropriated for a specific purpose it is called specific reserve because the amount appropriated is earmarked for a specific purpose and can be used for that purpose only. Example 'Dividend Equalisation Reserve'. 'Debenture Redemption Reserve' etc.

Distinction between Provision and Reserve

1. Provision is a charge against Profit and reduces the amount of Profit ' Reserve is an appropriation of Profit and does not affect the amount of net profit.
2. Provision is created and charged to Profit and Loss account even if there is a loss. Reserve is created only when profit is earned.
3. Provision is made because of legal necessity but Reserve is created as a matter of financial prudency.
4. Provision is made for some specific purpose and it must be utilised for that purpose only. Reserve, unless it is specific reserve, can be used for any purpose.
5. Provision cannot be distributed as profit or transferred to general Reserve. Reserve can be distributed as profit.
6. Provision is generally created to provide for likely decrease in value of assets and is shown as deduction from asset concerned. Certain Provision, such as provision for taxation, are shown on the liabilities side. Reserves are part of owners fund and recorded along with capital on the

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liabilities side.

7. Provisions cannot be invested in outside securities. Reserves can be invested outside business.

Reserve and Reserve Fund

If an amount equal to Reserve is invested in readily realisable securities then Reserve is called 'Reserve Fund'. If there is no specific investment, it cannot be called Reserve Fund but merely a Reserve. In case of reserves, the amount set aside out of divisible profit is invested in business itself and not in outside securities. In case of reserve, there is no corresponding investment but where there is Reserve Fund there must be Reserve Fund Investment.

Capital Reserve and Revenue Reserve: Any reserve which is created out of capital profits and not out of Profits due to operation of business is called capital Reserve. Such reserve arise in the following cases - Profit on sale of fixed asset, premium received on issue of shares and debentures, Profit made on the redemption of debentures in the market at a discount, Profit Prior to Incorporation etc. Generally Capital Reserves are not available for distribution as dividend among the shareholders. They are generally used for writing off capital losses such as discount allowed on issue of shares and debentures, preliminarily expenses, underwriting commission, loss on sale of fixed assets etc.

Revenue Reserve: Reserves which are not capital reserves are known as revenue reserves. In other words, reserves arising from normal profits (i.e. profits earned in the normal course of business) are known as Revenue Reserves Revenue reserves are available for distribution as dividends. General Reserve, dividend equalisation reserve, contingency reserve, debenture redemption reserve etc. are examples of Revenue reserve.

Secret Reserve:

Secret Reserves are reserves, the existence and amount of which is not disclosed in the Balance Sheet. Such reserves are created in those concerns where public confidence is required for its working such as banking and insurance companies. According to companies Act, secret reserves cannot be created except with the permission of the Central Govt.. It is created by understatement of assets or overstatement of liabilities. Secret reserves can be created in following ways.

1. By providing excessive depreciation on fixed assets.
2. By undervaluing current assets such as stock in trade.

3. By making excessive provision for bad debts and other contingencies.
4. By charging capital expenditure to Profit & Loss Account e g. debiting additions to buildings to Profit & Loss Account.
5. By over valuing liabilities.
6. By showing contingent liabilities as real liabilities.
7. By grouping free reserves as creditors.

Advantages of Secret Reserves:

1. Secret reserves increase the working capital and strengthen the financial position of the concern.
2. Secret reserves discourage competition as the real profits are not disclosed to competitors.
3. It enables the concern to maintain an even rate of dividend.

Disadvantages of Secret Reserves:

1. When secret reserves are created, the Profit & Loss A/c does not reveal the correct Profit or loss of the concern.
2. The Balance Sheet will not disclose a true and fair view of the state of affairs of the business.
3. Secret reserves give scope for misappropriation.

Provision for Repairs and Renewal Account:

When repairs to machinery are debited to Profit and Loss Account, the charge to Profit and Loss Account is respect of repairs will not be uniform every year. In the earlier years, when the asset in new, the amount spent on repairs will be less, hence less amount is charge to Profit & Loss A/c. But in later years, when asset becomes old, more amount will be spent on repairs and consequently the charge to Profit & Loss A/c will be more. To equalise the charge to Profit & Loss A/c in respect of repairs over different years some concerns maintain Provision for Repairs and Renewal Account. Under this method, the total amount to be spent for repairs and renewals over the life of the asset is divided by the number of years the asset is expected to last, and the average amount of repairs and renewal for each year is ascertained. This amount is debited to Profit & Loss A/c and credited to Provision for Repairs & Renewals A/c every year. The actual amount of repairs and renewals is debited to the provision for Repairs and Renewal account. The balance in the account appears on the liabilities side in the Balance Sheet. The account is automatically closed after the expiry of the expected life of the asset.

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SHORT ANSWER QUESTIONS

1. A firm purchased Plant & Machinery on 1st April, 2004 for Rs. 1,00,000. Depreciation is written off at the rate of 10 percent per annum under straight line method. The firm closes its books on 31st December every year. Show the Machinery Account for 3 years.

2. A Company purchased machinery on 1st July 2004 for Rs. 60,000. Depreciation is written off at the rate of 10 per cent under Reducing Instalment system. Show the Machinery Account for 3 years assuming that the books are closed on 31st December every year.

3. A truck was purchased for Rs. 80,000. The life of the truck is estimated at 10 years and the residual value at Rs. 15,000. Calculate the amount of depreciation to be provided according to the Straight Line Method.

4. Calculate the amount of annual depreciation for three years by (i) reducing balance method and by (ii) straight line method.

(1) Cost of machinery - Rs. 20,000 (2) Expected life - 3 years (3) Rate of depreciation $33^1/_3\%$ (4) Scrap value Rs. 2,000.

(B.Com. Osm.)

(Ans. Depreciation according to Reducing balance method first year Rs. 6,667, Second year Rs. 4,444 and Third year Rs. 2,963. Depreciation according to Straight line method Rs. 6,000 each year).

5. An asset is purchased for Rs. 50,000. Depreciation is to be provided annually according to straight line method. The life of the asset is 10 years and the residual value is Rs. 10,000. You are required to find out the annual amount of depreciation and the rate of depreciation.

(Ans. Annual amount of depreciation is Rs. 4,000.

6. A machine was purchased on 1st January 2004 Depreciation was written off at 10 percent per annum on diminishing balance method. At the end of 2006 the depreciated value of asset Rs. 72,900. Find the cost price of the asset.

(Ans. Rs. 1,00,000)

7. A lease is purchased on 1st January 2000 for 5 years at a cost of Rs. 1,00,000. It is proposed to depreciate the lease by annuity method charging 5 per cent interest. According to annuity table to depreciate Re. 1 by annuity method over 5 years charging 5 per cent interest a sum of Re. 0.23097 should be written off. Show the lease account for 2000 and 2001

8. On 1st January, 1990 a Company Purchased a Lease at a cost of Rs. 15,000. It is propsed to depreciate the Lease by Annuity Method Charging 6% p.a. interest. Reference to Annuity tables indicates that Re. 1 can be depreciated by charging annually Re. 0.237396. Show the lease Account for three years.

(B.Com.Osm.)

9. Avadhani takes a lease for 5 years for Rs. 5,000. He decides to write off lease by annuity method presuming the rate of interest 5% p.a. The annuity table shows that annual amount necessary to write off Re. 1 in 5 years at 5% p.a. is Re. 0.230975. Show the Lease Account for 5 years.

(B.Com. Kakatiya)

PROBLEMS

1. Rajesh purchased a second hand machine for Rs. 18,000 on 1st April, 2003. He spent Rs. 2,000 on its overhual and installation. Depreciation is written off at 10 per cent per annum on the original cost. On 30th June 2006 the machine was found to be unsuitable and sold for Rs. 4,000 Prepare the Machine account from 2003 to 2006 assuming that the accounts are closed on 31st December every year.

2. A firm purchased on 1st Jnuary 2003 certain Mill Machinery for Rs. 40,000. On 1st July 2003, additional machinery costing Rs. 20,000 was acquired. On 1st October 2005, the machinery acquired on 1st January 2003 was sold for Rs. 25,000 and on the same day new machinery was purchased costing Rs. 38,000. Assuming that 10% depreciation is charged under diminishing balance method, show machinery account upto 31st December 2007

(Ans. Balance in Machinery account on 31-12 2007 **Rs. 42,476)**

3. Tick Tick Company purchased second-hand machinery on 1st January 2000 for Rs. 12,000 and immediately spent Rs. 8,000 on overhauling. On July 1 2000 additional plant costing Rs. 10,000 was purchased. On July 1 2002 the machinery acquired on 1st January 2000 having become obsolete was sold off for Rs. 4,000. On the same date another machinery was purchased at a cost of Rs. 24,000.

Depreciation was provided annually on 31st December at the rate of 10% per annum on the original cost of the machine.

Show the machinery account as it appeared at the end of each year from January 2000 to 31st December, 2005

(Balance on 31st December 2005 **Rs, 20,100)**

4. On July 1st, 2001 A Company Ltd. purchased a second hand machinery for Rs. 20,000 and spent Rs. 3,000 on reconditioning and installing it. On January 1, 2002 the firm purchsed another machinery for Rs. 12,000. On June 30, 2003 the machinery purchased on January 1, 2002 was sold for Rs. 8,000 and on July 1, 2003 a fresh plant was installed at a cost of Rs. 15,000.

The Company writes off 10% depreciation on the original cost. The accounts are closed every year on 31st March.

Show the Machinery account for the year ending 31st March, 2004

(Ans. Balance in Machinery Account Rs. 30,550)

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5. A Company bought a second-hand machine on 1-1 2003 for Rs. 37,000 and immediately spent Rs. 2,000 on its repairs and Rs. 1,000 on its erection. On 1-7-04 it purchased another machine for Rs. 10,000 and on 1st July 2005 it sold off the first machine for Rs. 28,000 and bought an another one for Rs. 25,000. On 1st July 2006 the second machine was also sold off for Rs. 2,000.

Depreciation was provided on Machinery @ 10% p.a. on the original cost annually on 31st December. In 2004 however the company changed the method of providing depreciation and adopted the written down value method with a rate of depreciation at 15% p.a.

Prepare the Machinery account for four years commencing from the acquisition of the first machine.

(B.Com. Kakatiya)

(Ans. Balance on 31st December, 1986 Rs. 19,656)

6. Sanjay Industries Limited, which depreciates its machinery @ 10% according to Diminishing Balance method, had on 1st January, 1991 Rs. 9,72,000 balance on Machinery Account. During the year 1991 part of the machinery purchased on 1st January 1989 for Rs. 80,000 was sold for Rs. 45,000. On 1st July 1991 and a new machinery at a cost of Rs. 1,50,000 was purchased and installed on the same date - installation charges Rs. 8,000. The Company wanted to change its method of depreciation from Diminishing balance method to Straight line Method with effect from 1st January '89 and adjust the difference before 31st December 1991. The rate of depreciation remains the same as before. Show Machinery Account and ascertain the amount chargeable to Profit and Loss Account as depreciation and on sale of machinery in the year 1991.

(B.Com. Osm. Balance Rs. 9,34,100)

7. A Ltd. Purchased on 1-1-91, a second hand Plant for Rs. 30,000 and immediately spent Rs. 20,000 on overhauling it. On 1-7-'91 additional machinery costing Rs. 25,000 was purchased. On 1-7-'93, the plant purchased on 1-1-'91 became obsolete and was sold for Rs. 10,000. On that date new Machinery was purchased at a Cost of Rs. 60,000.

Depreciation was provided for annually on 31st December, @ 10% p.a. on original cost of assets. In 1994, however, the company changed this method of providing depreciation and adopted the method of writing off 15% on diminishing value.

Show the Machinery Account as it would appear in the books of the Company for 1991 to 1995 both inclusive)

(C.A.

(Ans. Balance on 31st December, 1995 Rs. 54,729)

8. A second hand machine was purchased on 1-1-1990 for Rs. 4,00,000 Overhauling and installation expenses for the same machine

amounted to Rs. 1,00,000. Another machine was purchased for Rs. 2,00,000 on 1-7-1990.

On 1-7-1992, the machine installed on 1-1-1990 was sold for Rs. 2,50,000. Dismantling charges for the machine sold on 1-7-'92 were Rs. 10,000. On the same date another machine was purchased for Rs. 8,00,000. The Company has adopted calender year as its financial year. Under the existing practice, the company provides depreciation @ 10% p.a. on original cost. In 1993, it has been decided that depreciation will be charged on the diminishing balance @ 15%. The change is not to be made with retrospective effect.

Show Plant Account from 1990–1994.

(ICWA)

(Ans. Balance on 31st December, 1994 Rs. 6,57,475)

9. ★ M/s Hot and Cold commenced business on 1st July 1997 when they purchased a new machinery at a cost of Rs. 8,00,000. On 1st January, 1999 they purchased another machinery for Rs. 6,00,000 and again on 1st October 2001 machinery costing Rs. 15,00,000 was purchased. They adopted a policy of charging @ 20% p.a. on diminishing balance basis.

On 1st July 2001 they however, changed the method of providing depreciation and adopted the method of writing off Machinery Account at 15% p.a. Under Straight Line Method with retrospective effect from 1st July, 1997 the adjustment being made in the accounts for the year ended 30th June 2002

The depreciation has been charged on time basis. You are required to calculate the difference in depreciation to be adjusted in the Machinery on 1st July, 2001 and show the Machinery Account till the year ended 30th June 2002

(I.C.W.A.)

(Ans. Balance on 30th June 1992 Rs. 18,16,250)

Hint: Depreciation overcharged Rs. 21,720 (Depreciation according to Diminishing balance method Rs. 7,26,720 less Depreciation according to Straightline Method Rs. 7,05,000)

10. A Company whose accounting year is calendar year, purchased on 1st April 2003 machinery costing Rs. 30,000. It purchased further machinery on 1st October 2003 costing Rs. 20,000.

On 1st January 2005 one-third of the machinery installed on 1st April 1973 became obsolete and was sold for Rs. 3,000.

Depreciation is being written off on fixed instalment system at 10% per annum.

Prepare Machinery Account as would appear in the Ledger of the company for the years 2004 and 2005.

(C.A.I.I.B.)

(Ans. Balance in Machinery A/c on 31st December 2005 Rs. 30,000).

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11. Reliance Ltd writes off depreciation on Plant and Machinery at 10% p.a. on the Reducing Balance Method. On 1st January, 1976, the Plant and Machinery Account showed a balance of Rs. 29,800.

It was discovered in 1976:

(a) Repairs effected to the plant on 30th June 1974 were debited to Plant and Machinery Account. The amount was Rs. 3,000.

(b) A machine costing Rs. 1,200 was entered in the purchases Book on 1st October, 1974. The expenses of installation Rs. 80 were debited to General Expenses Account. Necessary corrections were made on 1st Jan. 1976.

During the year on 30th June, a machine which had cost Rs. 4,000 on 1st January, 1974 was sold for Rs. 3,000 and a new machine costing Rs. 6,000 was installed on the same date, the erection expenses being Rs. 100.

Show the Plant and Machinery Account for the year 1976. Show your working in detail.

(B.Com. Nagarjuna, C.A.IIB)

(Ans. Balance on 31st December, 1976 Rs. 28,401)

Hints: (1) Correction of repairs done on 30th June 1974 debited to Plant & Machinery A/c. – Repairs debited to Mach. A/c in '74 Rs. 3,000 less Dep. charged in '74 Rs. 150, and in '75 Rs. 285 = Rs. 2565. This is adjusted by debiting Profit & Loss Adjustment A/c and Crediting Machinery Account with Rs. 2,565.

(2) Correction of Plant purchased on 1st Oct. '74 and debited to General expenses - Cost Rs. 1200 + Instalation expenses Rs. 80. Total Rs. 1,280 less Dep. in '74 Rs. 34 in '75 Rs. 125 = Rs. 1,123. This is adjusted by debiting Machinery A/c and crediting Profit & Loss Adjustment A/c by Rs. 1,123.

(3) Loss on Sale of Machine on 30th June Rs. 78 (cost on 1-1-'74 Rs. 4,000 less Dep. in 74 Rs. 400, in '75 Rs 360 and in 76 Rs. 162 = Rs. 3,078 less Sale price Rs. 3,000).

(4)

		Rs.
	Total Depreciation charged in 1976.	
	Balance on 1-1-'76	29,800
Add:	Plant Purchased on 1st October, '74 (Hint No.2)	1,123
		30,923
	Less: Correction of repairs (Hint No. 1)	2,565
		28,358
	Less: Book value of Machine sold on 1-1-'76	3,240
		25,118
	Depreciation on Rs. 25,118	2,512
	Dep. on Rs. 6,100 for 6 months	305
	Depreciation for 6 months on machine sold	162
		2,979

12. A Company acquiries a lease costing Rs. 30,000 for a term of five years. You find from the Annuity tables that in order to write off the lease on the annuity method at 5% per annum interest the amount to be written off annually as depreciation amounts to Rs. 6,929.25 Prepare the lease account for all the five years and show the annual charge to Profit and Loss Account during each of these five years.

(B.Com. Osm. Nagarjuna)

13. A Lease is purchased on 1st January 2000 for 5 years at a cost of Rs. 50,000. It is proposed to depreciate the lease by annuity method charging 5% interest. A reference to the Annuity table shows that to depreciate Re. 1 by annuity method over 5 years, charging 5% interest, the amount to be written off is Re. 0.230975. Show the Lease account for five years and also the relevant entries in the Profit and Loss Account.

14. A Company acquires a lease costing Rs. 1,00,000 for a term of 4 years. You find from annuity tables that in order to write off the lease on annuity method at 5% interest per annum the amount to be written off annually as depreciation amounts to Rs. 28,201. Prepare Ledger accounts for all the four years and show the net charge to Profit and Loss Account during each of the four years.

(B.Com. Andhra)

15. P. Ltd purchased a machinery on 1st July, 1990 for Rs. 80,000. The machinery is to be replaced at the end of 5 years for which purpose a sinking fund is established. It is expected that securities will earn 5 per cent interest. Sinking fund table shows that Re. 0.180975 invested each year will produce Re. 1 at the end of 5 years at 5 per cent. P. Ltd. close their accounts on June 30 each year.

At the end of the period, the securities realised their book value. New machinery is installed on 1st July 1995 at a cost of Rs. 90,000. Show the necessary ledger accounts for all the years.

16. A Company purchased machinery on 1st Jan. 2000 for Rs. 52,000. The scrap value was estaimted at Rs. 2,000. The machinery was to be replaced at the end of 3 years. It was decided to make a provision for its replacement by means of depreciation fund. The investments were expected to yield interest at 3% per annum. According to Sinking Fund Tables, Rs. 16,176.50 are to be invested annually. At the end of the third year the investments realised Rs. 32,800. Show the necessary Ledger Accounts.

(B.Com. Nagarjuna)

17. A machine costs Rs. 1,10,000. Its estimated life is five years after which it must be replaced. The scrap at the end is expected to be Rs. 10,000. A replacement provision is to be made. Assuming that Sinking Fund Investments would carry 5% interest p.a. findout the annual instalment to be provided. Also prepare Sinking Fund Account and Sinking Fund

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Investments account for all the five years.

Reference to Sinking Fund tables shows that Re. 0.180975 invested annually will fetch Re. 1.00 after 5 years at 5% interest p.a. Assume that the investments realised Rs. 500 more than the book value. Adjust the calculations to the nearest Rs. 5.

(B.Com. Osm)

18. An educational institution purchased a lease of land for Rs. 10,00,000 which was to run for five years. It was decided to raise a Sinking Fund to accumulate this amount at the end of the Lease, the rate of interest being 5%.

A reference to depreciation fund table shows that the annual amount of Re. 0.180975 amounts to Re.1 after 5 years.

Write up necessary accounts for all years.

(B.Com. Andhra)

19. A company purchased 3 years Lease on January 1 2000 for Rs. 50,000 and decided to provide for replacement of the Lease at the end of three years by setting up a Depreciation Fund. It is expected that investments will fetch interest at 5%. Table shows that an annual payment of Re. 1/- at 5% compound interest in three years accumulates Rs. 3.1525. Investments are made to the nearest rupee. On January 1, 2003 the investments were sold for Rs. 30,500.

Show Lease Account, Depreciation Fund Account and Depreciation. Fund Investments Account.

(B.Com. Osm.)

20. Rama Pulp and Papers Ltd., purchased a machine for Rs. 10,000 and paid Rs. 500 for its installation. At the time of purchase, the machines life was estimated to be 15 years and it was decided to make provision for replacement of the same by investing securities under the Depreciation Fund Method. Before the expiry of its life, it was dismantled to be replaced with a sophisticated one. The dismantling charges amounted to Rs. 100. The new Machine was bought for Rs. 11,500. The old machine fetched on amount of Rs. 625. On the date of dismantling the machine, the Depreciation Fund A/c showed a balance of Rs. 8,250 and the securities representing the same were sold for Rs. 7,800.

Write up the concerned accounts.

(B.Com. Osm.)

21. M Ltd. purchased Machinery Costing Rs. 25,000 on 1st January 1990. The Company establishes a depreciation Fund, Investments are expected to realise 4% interest and the expected life of the machinery is 10 years. Table shows that to produce Re. 1/- at the end of 10 years at 4%, an annual investment of Re. 0.083291 is required. At the end of fifth year the machinery had to sold off as scrap. It realised Rs. 7,000/- Investments were realised at 5% less than the book value. New Machinery Costing

Rs. 35,000 was purchased.

Show the Machinery account, Depreciation Fund and Depreciation Fund Investments accounts.

(B.Com. Kakatiya)

22. A firm desires to debit its profit and loss account with a uniform figure every year in respect of repairs and renewals. In created a Repairs and Renewals Provision by charing Rs. 30,000 every year. Actual repairs were Rs. 3,000 in first year, Rs. 8,000 in second year and Rs. 11,000 in the third year. Show the Repairs and Renewal Provision accont for three years.

(Balance Rs. 68,000)

23. Shri Gupta provided Rs. 10,000 as Reserve for Repairs and Renewals every year. The actual expenses incurred by him for repairs and renewals in 1990 Rs. 5,000, in 1991 Rs.8,000 and in 1992 Rs. 12,000. You are required to prepare the Reserve for Repairs and Renewals Account for the 3 Years ending 31st December, 1992.

(B.Com. Osm.)

(Balance Rs. 5,000)

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